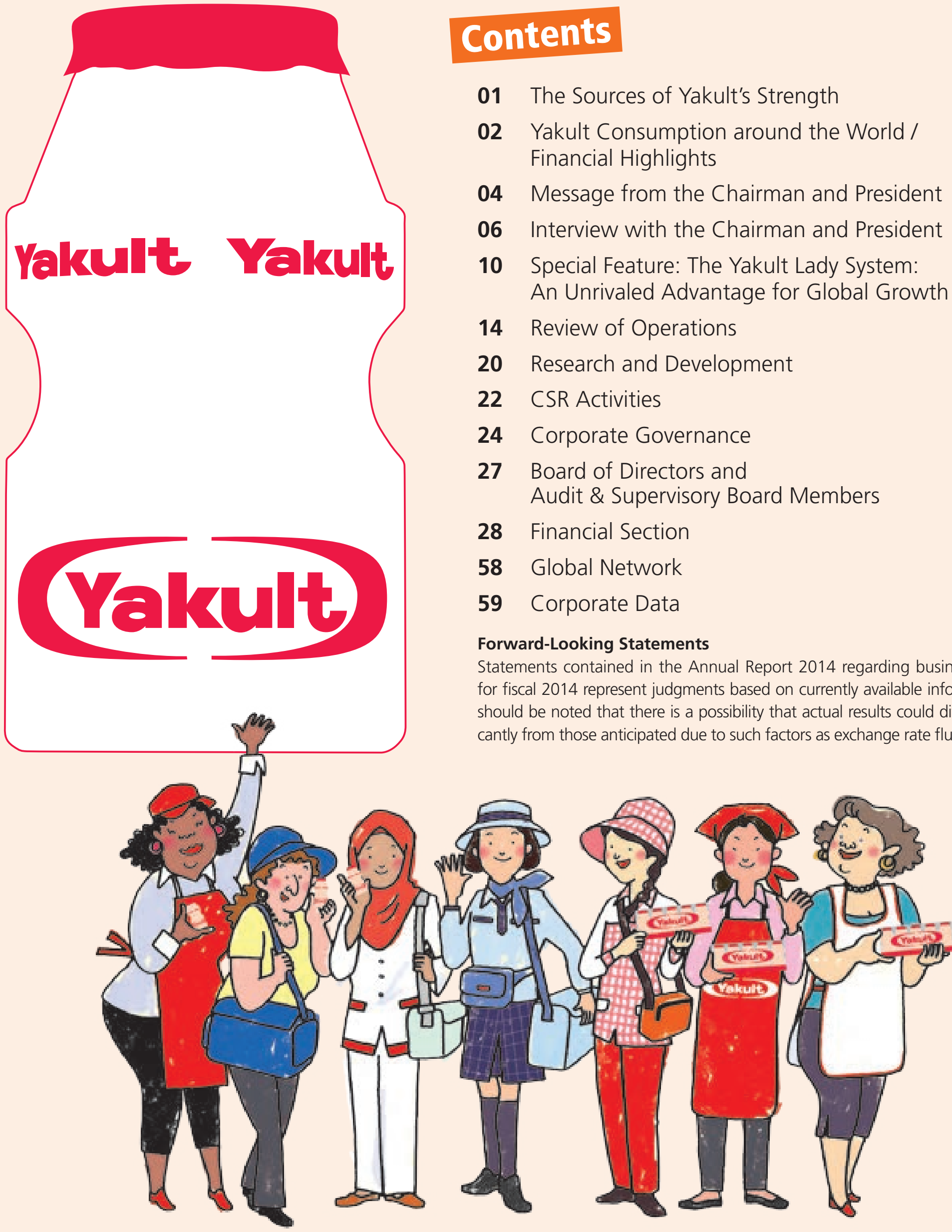
Yakult

ANNUAL REPORT 2014

Year ended March 31, 2014

The Yakult Lady System: An Unrivaled Advantage for Global Growth

Growing from Our



Contents

Forward-Looking Statements
Statements contained in the Annual Report 2014 regarding business results for fiscal 2014 represent judgments based on currently available information. It should be noted that there is a possibility that actual results could differ significantly from those anticipated due to such factors as exchange rate fluctuations.

Profile

Our founder,

Dr. Minoru Shirota, successfully strengthened and cultivated *Lactobacillus casei* strain Shirota while working in a microbiology laboratory at Kyoto Imperial University School of Medicine (now Kyoto University). In 1935, he began sales of a fermented milk drink under the brand name *Yakult*.

In the more than 75 years since then,

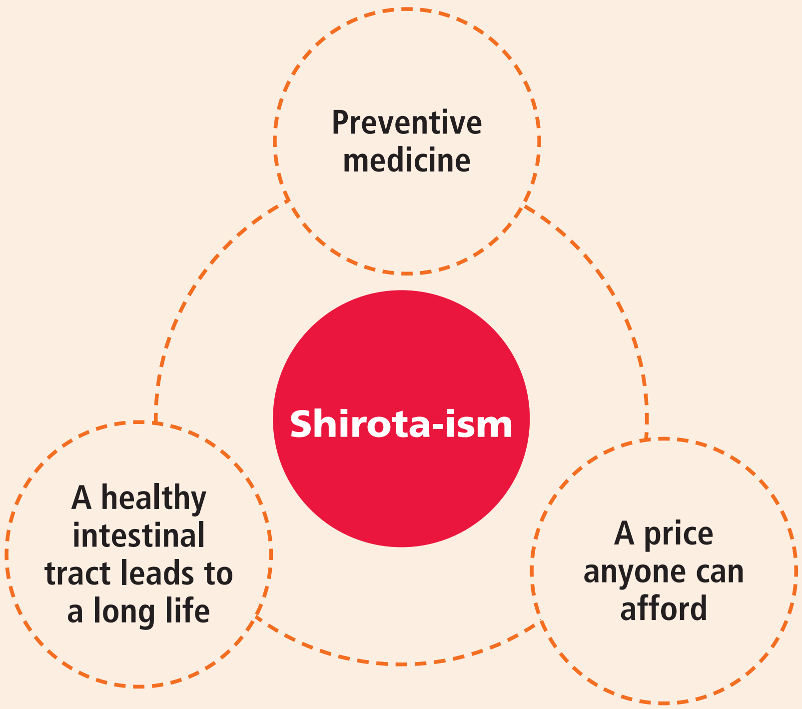
Yakult has conducted its business activities around the world in ways based on Dr. Shirota's philosophy—Shirota-ism (preventive medicine, the link between a healthy intestinal tract and a long life, and offering products at a price affordable to everyone)—as explained on the next page.

As a Probiotics* pioneer,

we help to protect people's health in 33 countries and regions, including Japan as of March 31, 2014. In addition to fermented milk drinks, Yakult operations in Japan today include a pharmaceuticals business, in which we handle anticancer drugs used worldwide, as well as a cosmetics business.

* Probiotics: Live microorganisms that provide health benefits by improving the balance of intestinal flora.

Roots



The Sources of Yakult's Strength

Yakult has three unique sources of strength:

Product Power:
More than 75 Years as a Probiotics Pioneer

Since its founding more than 75 years ago, Yakult has been a pioneer in the field of Probiotics, delivering products that contribute to good health. Today, Yakult has expanded beyond food and beverages to play an active part in the pharmaceuticals and cosmetics businesses as well.

The Yakult Lady System:
Everywhere Is Local

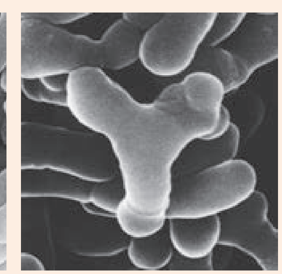
Yakult supplies its products via two sales channels: home delivery sales by Yakult Ladies, and direct sales via high-volume retailers, vending machines, and other points of sale. Together, these two channels are better than one, creating synergies that underpin Yakult's powerful sales capabilities.

Our unique home delivery system offers opportunities to meet customers face-to-face and explain to them how lactobacilli work to support good health. It also enables customers to experience for themselves the benefits of Yakult products.

Dynamic R&D:
The Wellspring of Future Competitiveness

For Yakult, R&D activities vitally underpin its ability to create products that promote good health today and in the future. The R&D Division pursues fundamental research in life science aimed at developing and applying basic materials in food, pharmaceuticals, cosmetics and other areas.

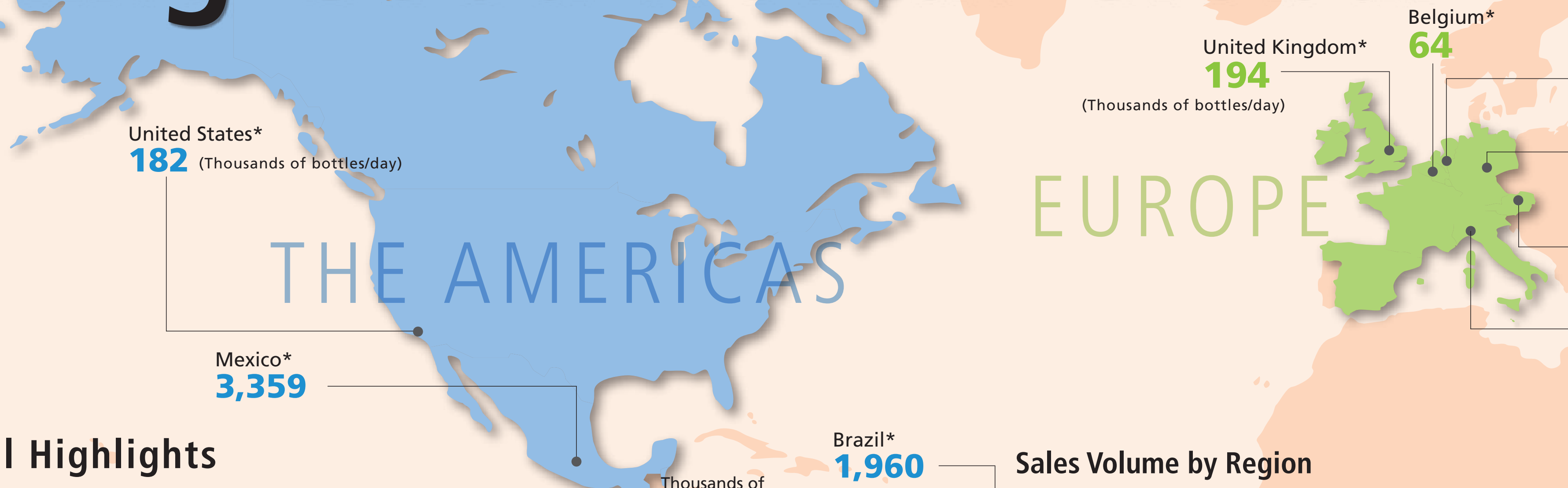
Lactobacillus casei strain Shirota



Bifidobacterium breve strain Yakult

Yakult Consumption around the World

Taking Good Health Global



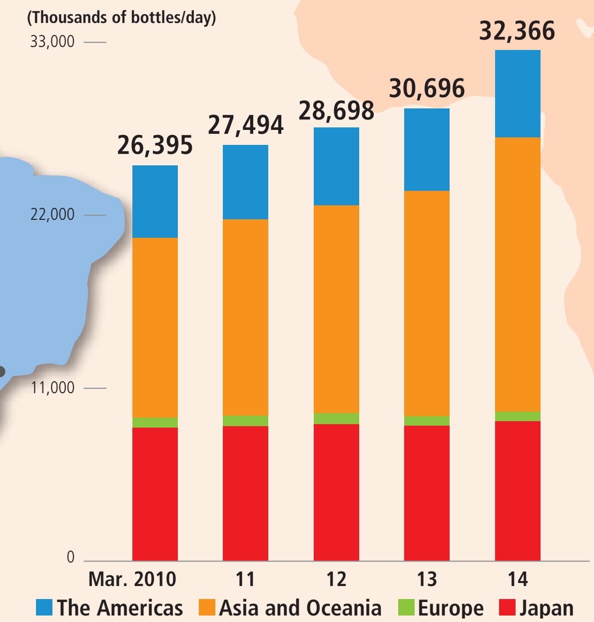
Financial Highlights

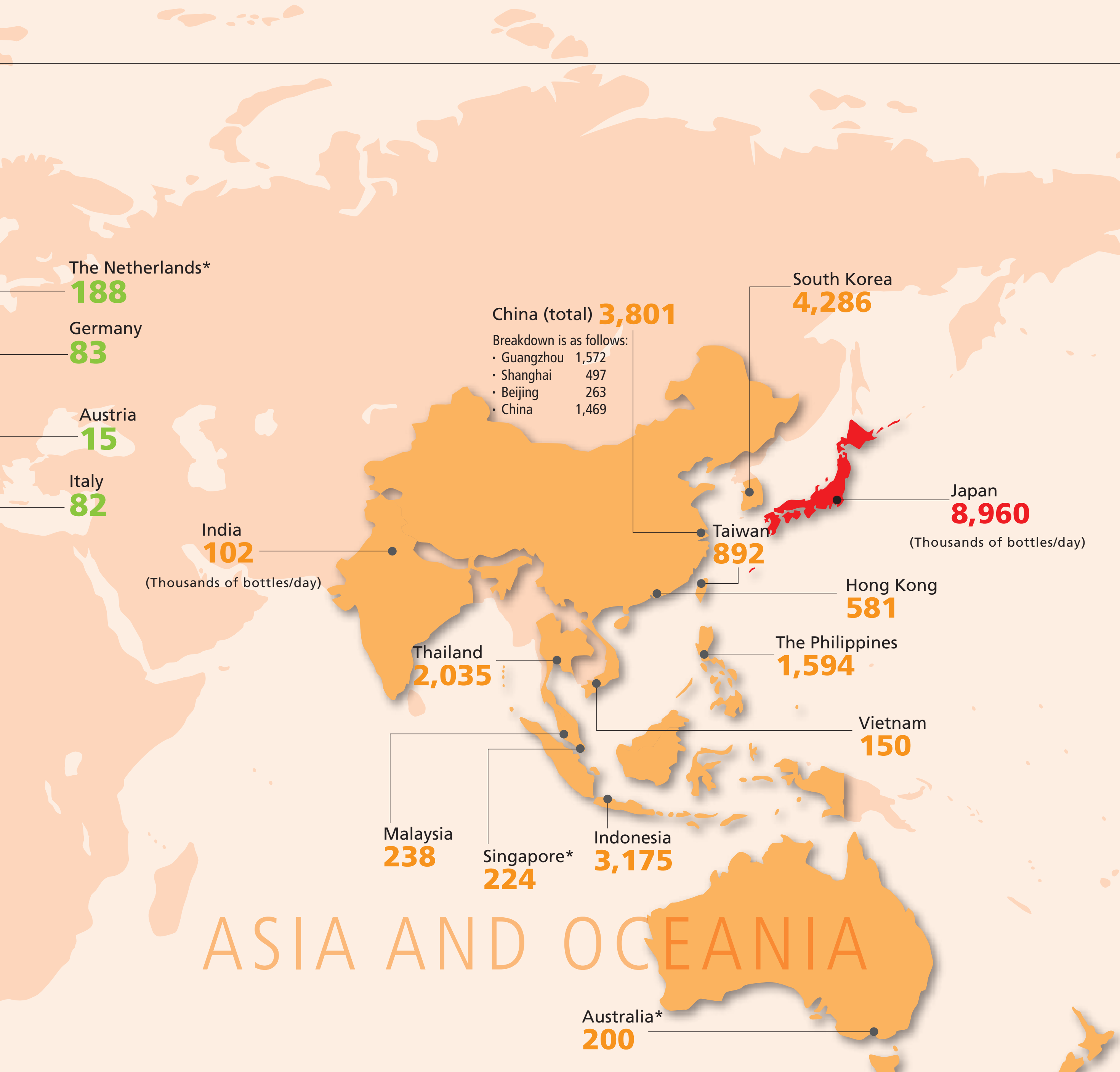
YAKULT HONSHA CO., LTD. and its consolidated subsidiaries
March 31, 2014, 2013, 2012, 2011 and 2010

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2010	2011	2012	2013	**2014**	**2014**
For the year:						
Net sales	¥290,678	¥305,944	¥312,553	¥319,193	**¥350,322**	**$3,401,187**
Operating income	18,991	20,401	20,817	23,068	**32,026**	**310,932**
Net income	13,249	13,169	13,292	16,379	**22,544**	**218,873**
At the year-end:						
Total assets	¥389,892	¥392,828	¥397,214	¥438,176	**¥519,571**	**$5,044,375**
Total liabilities	140,970	141,857	144,971	151,077	**211,538**	**2,053,762**
Total equity	248,922	250,971	252,243	287,099	**308,033**	**2,990,613**
Financial ratio:						
Return on equity (ROE) (%)	6.2	5.9	5.8	6.7	**8.4**	
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 77.11	¥ 76.55	¥ 77.32	¥ 95.03	**¥ 134.44**	**$ 1.31**
Total equity (Note 3)	1,300.21	1,313.37	1,328.61	1,517.88	**1,662.37**	**16.14**
Cash dividends applicable to the year	20.00	22.00	22.00	23.00	**24.00**	**0.23**

Notes: 1. Figures are rounded to the nearest million.
2. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥103 to U.S.$1, the approximate rate of exchange at March 31, 2014.
3. Minority interests are not included in equity on process of calculation.

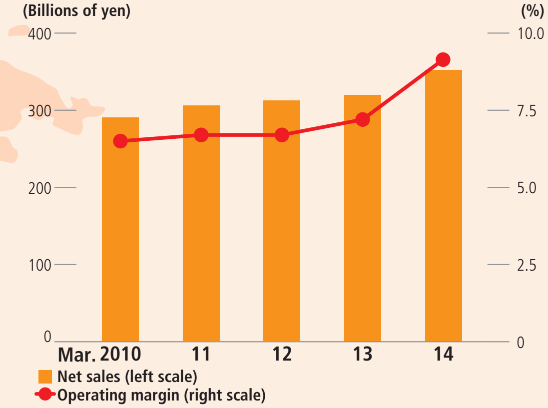
Sales Volume by Region



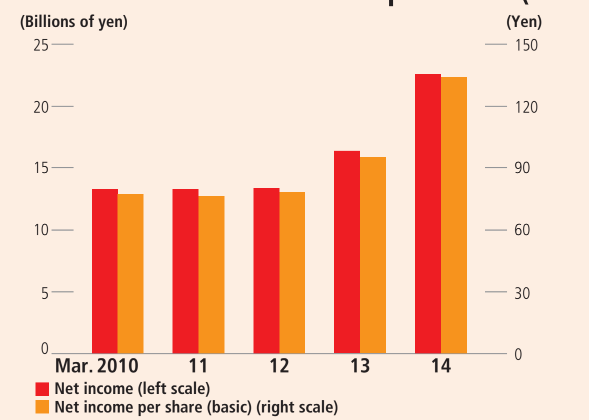


* The sales of bottles for the following countries are included: Uruguay (Brazil), Belize (Mexico), Canada (the United States), Luxembourg (Belgium), France (the Netherlands), Switzerland (the Netherlands), Spain (the Netherlands), Ireland (the United Kingdom), Marta (Italy), Brunei (Singapore), and New Zealand (Australia).

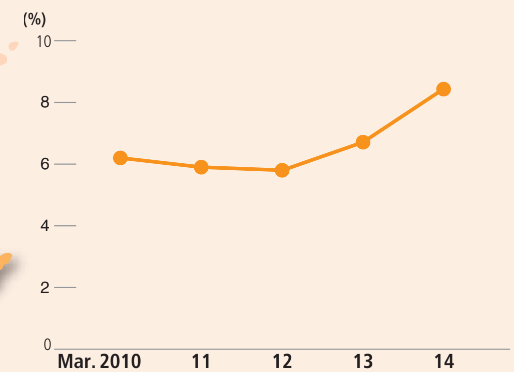
Net Sales and Operating Margin



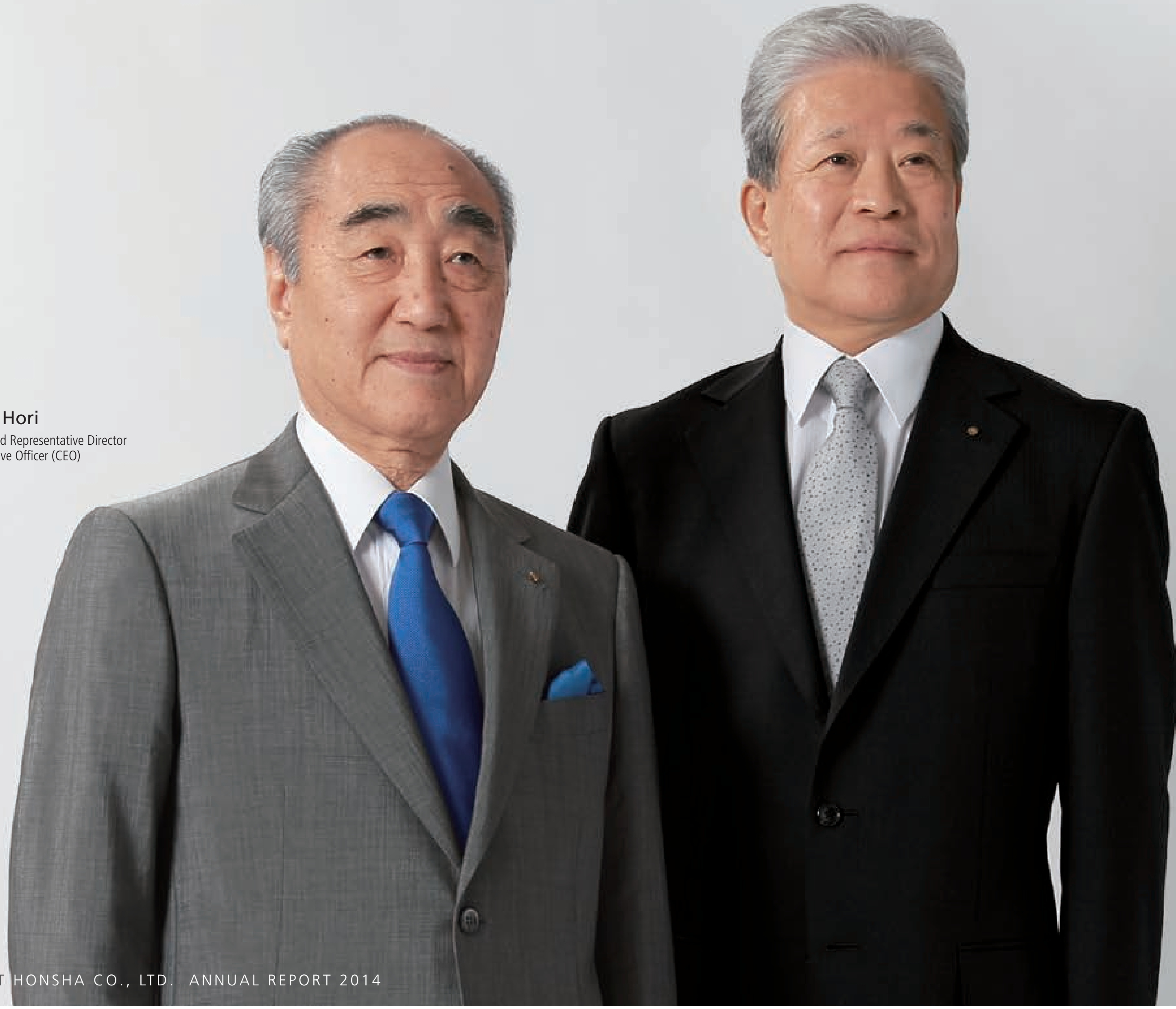
Net Income and Net Income per Share (Basic)



ROE



Message from the Chairman and President



Sumiya Hori
Chairman and Representative Director
Chief Executive Officer (CEO)

Takashige Negishi
President and Representative Director
Chief Operating Officer (COO)

Pledging "Dramatic Growth" with High Expectations for New Success

This fiscal year is the first year of Phase II of our business plan, "Yakult Vision 2020." We are delighted and honored to have an opportunity to share with our investors the results of the Group's business activities, and we have high hopes for more successes to come.

The Yakult Group formulated and is implementing "Yakult Vision 2020," a long-term vision covering fiscal 2011 to 2020. The goal of this vision is to achieve sustainable growth as a global company while maintaining the consistency in our conventional business management, and responding to changes flexibly in the business environment.

Phase I, which covered the three-year period from fiscal 2011 to fiscal 2013 (ended March 31, 2014), was positioned as a "run-up period before a leap forward," and we established a business foundation for the next 10 years. During this phase, we were able to surpass all our objectives in fiscal 2013 and record global sales of 32.37 million bottles of dairy products per day, consolidated net sales of ¥350.3 billion, and operating income of ¥32.0 billion.

In Phase II, which we envision as a "period of dramatic growth," we are targeting global sales of 37.1 million bottles of dairy products per day, ¥420.0 billion in consolidated net sales, and ¥43.0 billion in operating income. During this phase, we plan to reach the global target for bottle sales originally planned for fiscal 2020.

We are implementing Phase II of the plan to achieve the following goals. (1) We will promote further globalization by spreading value promotion activities for Probiotics around the world, which is the core of the Yakult business. (2) We will aim for sustainable growth by strengthening our research and development capabilities as well as by offering unique products whose effectiveness has been proven scientifically and by providing services that only Yakult can provide. (3) The entire Group will work together to contribute to people around the world (local communities) through the practice of its corporate philosophy.

Although the business environment is expected to remain extremely volatile in the foreseeable future, we will do our utmost to reach the targets set for Phase II, as we did during Phase I. Furthermore, we are committed to firmly establishing ourselves in the global market as a Probiotics pioneer, and delivering good health and smiles to as many people as possible. We look forward to reporting to you the outcome of the Group's persistent effort to set new challenges for itself.

August 2014

Sumiya Hori

Sumiya Hori
Chairman and Representative Director
Chief Executive Officer (CEO)

Takashige Negishi

Takashige Negishi
President and Representative Director
Chief Operating Officer (COO)

Interview with the Chairman and President

Yakult's Dramatic Growth as a Global Brand

Yakult achieved all of the targets for Phase I of its long-term plan, "Yakult Vision 2020." Below are responses by the Chairman and President to questions of most interest on Phase II—the period of dramatic growth—such as those on strategies for future growth.

Q

Reflecting on the Fiscal Year Ended March 31, 2014

Please summarize the business results for the fiscal year ended March 31, 2014.

A

We recorded record-high net sales and profits.

Although the business environment fluctuated wildly both in Japan and overseas during the year under review, we worked to build awareness and understanding of Probiotics, which constitutes the bedrock of our operations, while striving to communicate the superiority of our products. In addition, we sought to boost performance by taking steps to shore up our sales organization, research and develop new products, upgrade our production facilities, and vigorously enhance our overseas operations and pharmaceuticals business.

Consolidated net sales for the fiscal year ended March 31, 2014 reached ¥350.3 billion, up 9.8% compared to the previous year. Operating income rose 38.8%, to ¥32.0 billion, and net income grew 37.6%, to ¥22.5 billion. Thus, we posted record results in both sales and income.

Looking at business performance by segment, in the Food and Beverages business we succeeded in boosting both revenue and income thanks in part to the increased sales of dairy products and overseas production equipment. Overseas, both segment revenue and income rose due primarily to a significant rise in the number of bottles sold in Asia and the effect of the weaker yen. In the Pharmaceuticals business, due to lower sales volume of *Elplat*, a drug used to treat colorectal cancer, segment revenues and income declined.

Q

The Prospect for Business Management (1)

Please discuss measures being taken in the domestic Food and Beverages business.

A

We will promote the superiority of *Lactobacillus casei* strain Shirota and continue our efforts to attract new customers.

In November 2013, we revised the retail price of our main product, *Yakult*, for the first time in 22 years. The market reaction suggested that consumers accepted the revised prices. In addition, *Yakult Calorie Half*, whose retail price was also revised, saw a rise in its sales volume thanks to promotional activities conducted for *Lactobacillus casei* strain Shirota around the same time as the price adjustment. We foresee a continued sales increase for this product in the near future.

For the fiscal year ending March 31, 2015, we will continue to move forward with activities that make optimal use of the strength of our home delivery channel, namely, the link between Yakult Ladies and our customers. We will continue to promote the superiority of *Lactobacillus casei* strain Shirota, centered on the *Yakult 400* series, and create even more customers. Through traveling seminars and classes concerning health hosted by regional sales companies, and factory visits, we will attract new fans of our products and brand, as we lay the foundation toward continued growth.

As for our retail store channel, our focus will remain on further establishing the *Yakult* series brand. For large-scale retailers, our biggest sales channel, field staff and promotion staff sent by sales companies will undertake a range of activities, including suggesting the setup of sales displays and interacting with customers on site. We also redesigned the packaging of the *Yakult* series in April 2014, to give our products a renewed, fresh look. Finally, in June 2014 we introduced *Yakult Gold* with added nutrients, targeted at the senior population aged 50 years and above.

Q

The Prospect for Business Management (2)

Please discuss current measures being taken in the Food and Beverages business overseas.

A

We will continue our focus on establishing *Yakult* as a global brand.

The annual average number of bottles sold overseas per day was a record-high 23.41 million bottles, an increase of 1.59 million bottles (or 7.3%) compared with the previous year. In countries where our subsidiaries already operate, the Yakult Ladies as well as local employees have been working hard to explain and have people understand the positive effects that *Lactobacillus casei* strain Shirota has on health in order to create new customers. We believe that our numbers show that our dissemination and education activities succeeded in producing desired results. We will continue to move forward with these activities while keeping our focus on establishing *Yakult* as a global brand.

Among the major countries that we have already entered, we will discuss here the situation in China and Mexico. For Indonesia, please see page 12, "Success Overseas: The Yakult Lady System in Indonesia."

First, in China, the annual average number of bottles sold per day was 3.8 million, an increase of 30.6% compared with the previous year, showing that the ongoing cultivation and expansion of the market has progressed steadily. In Guangzhou, where demand had exceeded supply, Guangzhou Yakult Co., Ltd.'s second plant began operating on March 28, 2014 and is currently producing 400,000 bottles per day. Our plans call for production to reach 1.2 million bottles per day before the end of 2014. In regions other than Guangzhou, a second plant building in Tianjin began operating in June 2014. We also began construction of a plant in Wuxi, with the goal of starting operations during the first half of fiscal 2015.

In terms of sales, we established new sales bases in March 2014 in Hefei, Shijiazhuang, and Changchun.

The Company's business plan in China had called for setting up 27 sales bases by 2015, but with the opening of these three bases we succeeded in reaching our goal a year earlier. Nevertheless, we will continue to establish new bases to further expand our sales region. Existing bases will work diligently to expand and cultivate the retail store channel as well as build a strong Yakult Lady home delivery channel, which is indispensable for creating loyal customers. As seen with our success in Indonesia, expanding and strengthening the Yakult Lady home delivery channel is undoubtedly one of our most important strategies in accelerating market growth.

In Mexico, the annual average number of bottles sold per day is 3.4 million, with an approximate market penetration rate of 4%, which indicates a stable market. Having entered Mexico in 1981, we are now in the 33rd year of operations in that nation. In addition to our major product, *Yakult*, we have adopted a multi-product strategy and introduced the *Sofúl* brand. We believe that this strategy will deepen customer attachment to our products, boosting our brand value as a consequence.

Q

The Prospect for Business Management (3)

Could you discuss recent initiatives undertaken in the Pharmaceuticals business?

A

We will strengthen our presence further in the field of oncology, centered on *Elplat*.

The core product of our Pharmaceuticals business, *Elplat*, is highly rated as a key drug for the treatment of advanced or recurrent colorectal cancer and for the postoperative chemotherapy of colon cancer in patients who have undergone complete resection of the primary cancer (adjuvant chemotherapy). In April 2014, *Elplat* qualified for a premium to promote the development of new drugs and eliminate off-label use by the NHI price revision. As a result, the price of the product rose by 2.9%, but taking into consideration the sales tax, there was no impact on the before-tax price. We will work diligently to reach the sales goal for *Elplat* in the current fiscal year, aiming to achieve an increase of 4.1% compared to a year earlier.

More specifically, we will promote the market penetration of *Elplat* as part of adjuvant chemotherapy, which prevents the recurrence of colon cancer after an operation. We anticipate the addition of about 3,000 cases during the current fiscal year and aim to reach a penetration rate of 40%, or 10,000 cases, among Stage III cases.

With regard to the treatment of advanced and recurrent colorectal cancer, for which the largest quantity amount of *Elplat* has been used, we face the issue of a reduction in the number of administration courses. Ahead of its competitors, Yakult will submit comprehensive proposals including information on case confirmation, confirmation of the effect of the medication, countermeasures against side effects, the use of competitors' medication, and the appropriate timing for the reintroduction of *Elplat*. We will also propose a long-term treatment strategy focused on *Elplat*, which can prolong the life of a patient by 30 months on average.

Furthermore, we plan to apply for an expanded indication of *Elplat* for gastric cancer as soon as possible. We will also promote joint R&D projects with international pharmaceutical companies on medications other than *Elplat* to continue to strengthen our presence in the field of oncology.

Q

Long-Term Vision

Phase II of the Company's long-term vision, "Yakult Vision 2020," is about to begin. Could you discuss Phase II, in particular, your targets?

A

As we reached all targets and completed Phase I successfully, our goal for Phase II is to generate dramatic growth.

New target numbers were set for Phase II, which began in April, with this general goal in mind. We will do our utmost to achieve all our objectives to emulate the success of Phase I.

Now, let us discuss the target numbers for Phase II.

Take the marketing population. The population of the 33 countries and regions where Yakult currently operates is 4.1 billion, while the world population approximates seven billion. In Phase II, we aim to boost our marketing population to 1.96 billion, an increase of 260 million, within three years.

In terms of the number of dairy products sold per day, we aim to reach 27.5 million bottles overseas, boosting our sales by 4.09 million bottles compared with fiscal 2013. Domestically, we aim to sell 9.6 million per day, a rise of 640,000 bottles. The goal for the total of the number of bottles sold per day is 37.1 million.

In terms of the population ratio, which often serves as an indicator of the extent of market penetration, we would like to see 1.5% overseas and 7.5% in Japan. We plan to expand and cultivate the market based on our corporate philosophy. To attain our corporate goal, we will use the increase in the population ratio and the marketing population to gauge our progress. We will make every effort to spread the message that "A healthy intestinal tract leads to a long life."

Now, let us discuss consolidated net sales for each segment.

The overseas Food and Beverages business is expected to record consolidated net sales of ¥150.0 billion, up ¥31.2 billion, and serve as the driving force for the entire plan. We will continue to push forward to expand and cultivate the global market. In the domestic Food and Beverages business, we will continue to promote value dissemination activities. Consolidated net sales are expected to reach ¥216.0 billion, up ¥15.6 billion. In the Pharmaceuticals business, we plan to expand our business particularly in the field of cancer treatment. Consolidated net sales are expected to reach ¥50.0 billion, up ¥14.7 billion. In the Others segment, including our Cosmetics business, we target consolidated net sales of ¥420.0 billion, up ¥20.0 billion.

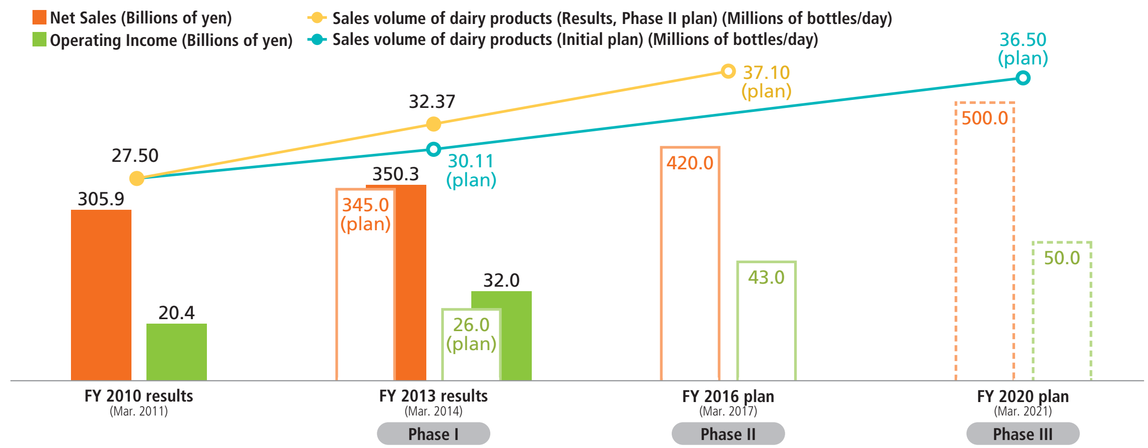
We expect the overseas Food and Beverage business to post the highest operating income, totaling ¥43.0 billion. This figure has more than doubled in six years, compared with fiscal 2010.

Having boosted our operating margin from 6.7% to 9.1% during Phase I of our plan, we aim to raise the ratio to 10.2% during Phase II. Initially we aimed to reach 10.2% in fiscal 2020, but we now intend to achieve this much earlier.

Lastly, we would like to touch on ROE and the annual dividend. Our ROE improved during Phase I from 5.9% to 8.4%. We plan to raise it further to 9.0% during Phase II. Improving our ROE will remain a major objective.

We will continue to translate our success into an increase in the annual dividend, while steadily boosting revenue and income each year. Three years from now, when we review the results of Phase II, we are looking forward to seeing just how much growth we can achieve.

“Yakult Vision 2020”: Results and Plans



Business Forecast and Returns to Shareholders

Q What is your message for Yakult investors with regard to the business forecast for the fiscal year ending March 31, 2015 and shareholder return, among others?

A We will meet shareholders’ expectations through record-high improvements in profitability, and dividend increases.

For the fiscal year ending March 31, 2015, we aim to post record results. We project consolidated net sales of ¥366.0 billion (up 4.5%), operating income of ¥33.0 billion (up 3.0%), and net income of ¥23.5 billion (up 4.2%). We aim to increase the dividend by ¥1.0 per share compared with the previous year (¥25.0 per share), and we sincerely hope to meet our shareholders’ expectations regarding the return of profits.

The business environment is expected to fluctuate greatly in the foreseeable future. Nonetheless, we aim to ensure sustained growth and reach all the targets set for Phase II of “Yakult Vision 2020” by continuing to adhere to our principles and roots, which represent the value of our existence as a company.

In all our efforts, we ask our shareholders and investors for their continued support and understanding.

The Yakult Lady System:
An Unrivaled Advantage for Global Growth

Fifty Years of Delivering Good Health and Smiles to People Worldwide: Yakult Ladies at the Forefront in the Expansion and Cultivation of International Markets

For about 50 years, home delivery by Yakult Ladies has been a constant since this system, which is unique to Yakult, was introduced in 1963 in Japan. With the spirit of, "365 days a year, 24 hours a day, anytime, anywhere and even single bottles," home delivery by Yakult Ladies was born of the desire to protect human health and encourage people to drink one bottle of *Yakult* a day.

About the Yakult Lady System:
Good Health for as Many People as Possible

Showcasing the Value of Lactobacilli

Yakult is a product for consuming live cultures of *Lactobacillus casei* strain Shirota, a beneficial bacteria strain unique to the Company. The concept of consuming live bacteria for health had not existed in any country until Yakult was founded in Japan. Therefore, the top priority of Yakult's strategies overseas is to spread the knowledge that *Lactobacillus casei* strain Shirota is a live microorganism (Probiotics) that promotes health.

To explain this, it is necessary to work steadily to convey the values of *Lactobacillus casei* strain Shirota and promote understanding. This is why Yakult sticks to home delivery by Yakult Ladies.

Unlike the "hunting" approach to marketing, which pursues short-term results through major advertising campaigns, value dissemination activities by Yakult Ladies take a "farming" approach to marketing, which requires repeated steady and thorough efforts as if cultivating a field. Since its foundation, Yakult has consistently implemented the latter, and for overseas business this philosophy is unchanged. First, we aim to thoroughly understand the culture and customs of a country where we operate, and then implement activities to clearly explain and promote the understanding of Yakult's philosophy. Through such activities, we create our customer base and establish an overseas market from the ground up.

Yakult Ladies in Japan

In Japan, there were approximately 38,899 active Yakult Ladies as of March 31, 2014.

Worldwide Spread of the Yakult Lady System

Because of Dr. Minoru Shirota's desire to protect the health of people throughout the world, it was only natural that Yakult expand overseas.

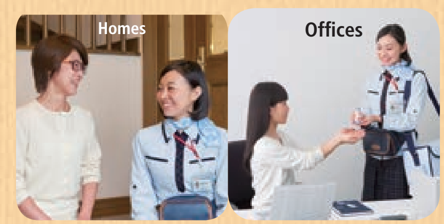
In 1964, Yakult Co., Ltd. (Taiwan) began operations, as the first step in the expansion of our network to Asia, Oceania, the Americas, and Europe. Our aim is to create business operations that are integrated into, and fully accepted by, local communities by providing health information appropriate for the daily lifestyle and dietary practices, respecting local traditions and cultures, and taking other actions tailored to individual countries or regions.

As in Japan, deliveries of Yakult products in many countries and regions are made by Yakult Ladies, who totaled approximately 42,347 outside of Japan as of the end of December 2013.

THE SYSTEM OF HOME DELIVERY

1 Preparation: Giving it their best today

After preparing and checking their products, the Yakult Ladies put on a smile and are off for deliveries.



2 Delivering Products to Customers: Service with a smile

For customers waiting for their daily *Yakult*, Yakult Ladies make sure to deliver their products with a smile.

3 Returning to the Center after Deliveries: Looking forward to tomorrow

After returning to the center where they are based, the Yakult Ladies prepare for tomorrow's deliveries and share what they learned today with their colleagues. They will be back with a smile again tomorrow.

Success Overseas:
The Yakult Lady System in Indonesia

Accelerating Growth by Reinforcing the Home Delivery System

We introduced *Yakult* in Indonesia in 1991 and have continued to expand our business, overcoming the Asian economic crisis in 1997. The latest figures show that daily sales of *Yakult* reached 3.18 million bottles in 2013, up 15.7% year on year. The number of Yakult Ladies increased by 511 from a year earlier to 5,111 at the end of 2013, attesting to the continued strengthening of our sales structure. Since we expect demand to continue to rise supported by the expansion of sales areas, we have built a second plant near Indonesia's second largest city of Surabaya and begun full-scale manufacturing operations.

Our rapid and dramatic growth seen in Indonesia has been achieved primarily through the activities of Yakult Ladies. The Company earnestly began strengthening the Yakult Lady home delivery system in 2007 as a response to the increased awareness of healthy living created by the rising middle class within Indonesia. As a result, the home delivery ratio rose from 19% in 2007 to 48% today, while the average number of bottles sold per day through home delivery rose by approximately eight times to reach 1.54 million.

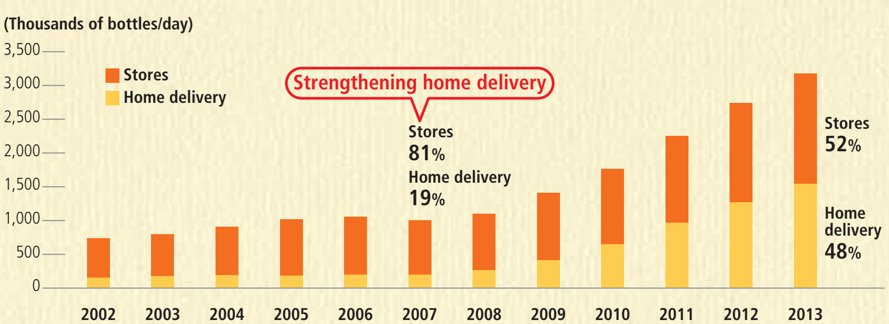
The strength of Yakult Ladies is that they have a multi-directional network that covers people of every age and income class across the towns they serve. They have established a unique sales channel through local housewives for hand-delivering *Yakult* while recommending continued consumption of one bottle of *Yakult* per day. The Yakult Lady home delivery system makes optimal use of this strength and has succeeded in many regions in the world, in addition to Japan and Indonesia. One of our unrivaled advantages, it has helped us to accelerate market expansion and cultivation.

Comprehensive Development of Human Resources

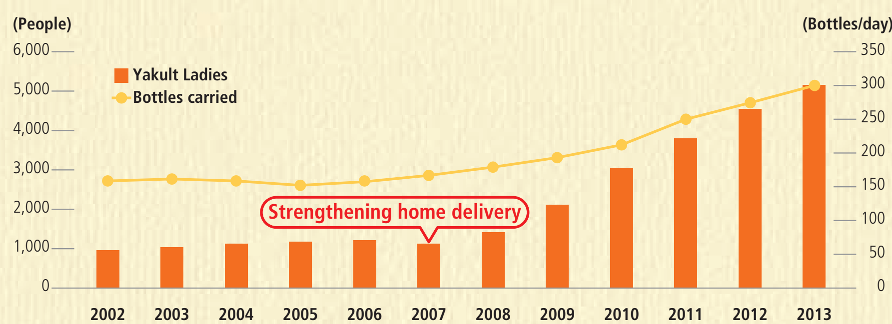
The activities of Yakult Ladies in Indonesia are supported by our comprehensive development of human resources.

Each newly hired Yakult Lady works with a specific trainer for one month and receives one-on-one, on-the-job training. Using a checklist of more than 30 items, new Yakult Ladies are taught and tested on required knowledge such as a thorough understanding of *Lactobacillus casei* strain Shirota and products, as well as expertise on practical customer interaction including visiting and communicating with customers. More experienced Yakult Ladies can also have opportunities to share our research results or other latest information, which in turn promotes a working environment that revitalizes activities to disseminate value. In addition, we recognize Yakult Ladies with high achievements by inviting them to a lavish award ceremony, the "Yakult Ladies Convention," and presenting them with a commemorative gift. Our efforts in human resource development such as these have translated into the dramatic rise in the number of Yakult Ladies and bottles carried.

Annual Average Bottle Sales/Day



Number of Yakult Ladies and Bottles Carried at a Time



Future Global Strategy:
The Yakult Lady System Is a Key to Global Growth

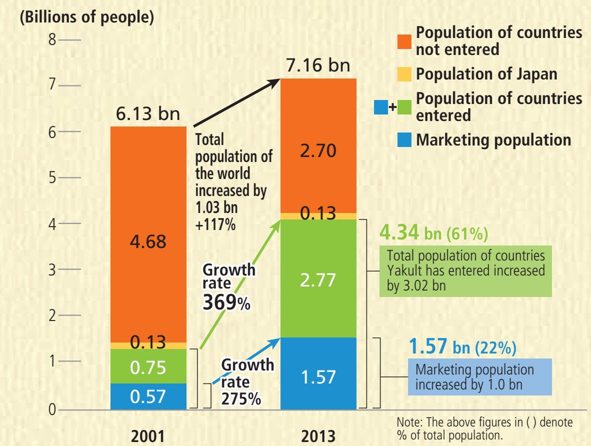
Global Market with Great Growth Potential

There are more than 190 nations in the world, with a total population of some 7.16 billion. At the same time, Yakult sells its products in only 32 countries and regions, excluding Japan. We plan to continue to conduct detailed market research to expand our market.

In existing markets, approximately 4.34 billion people live in the 32 nations and regions where we operate. Of the total, Yakult's marketing population is only 1.57 billion people. Accordingly, we see sufficient growth potential in existing markets.

We believe that our Yakult Lady System—home delivery service by Yakult Ladies—is a major advantage that will enable us to further establish a solid reputation as a Probiotics pioneer and to set ourselves apart from our competitors in the global market, with its continuing potential for growth. Needless to say, the system complements store sales, which also play an important role in our success and growth.

Population Coverage Situation



Future of the Yakult Lady System

The growth that stems from the Yakult Lady System can be calculated as follows: The number of Yakult Ladies multiplied by the number of bottles sold per Yakult Lady (the number of bottles carried) equals the number of bottles sold. In other words, to increase the number of bottles sold, we should expand the number of Yakult Ladies and the number of bottles carried per Yakult Lady.

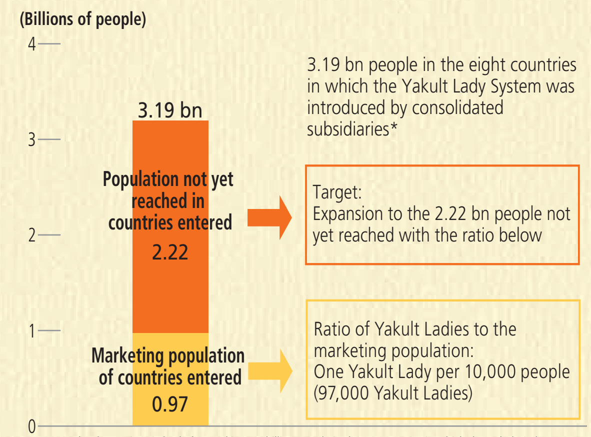
In countries where our consolidated subsidiaries already operate, we plan to boost the ratio of the number of Yakult Ladies to the marketing population from "1 to 22,000" to "1 to 10,000," and to further promote our value dissemination activities in a way that more suitably accommodates the needs of consumers. The total population of the eight countries (consolidated subsidiaries) where Yakult Ladies operate is 3.19 billion, of whom 970 million are the marketing population. Our target for the total number of Yakult Ladies in these countries is therefore set at 97,000. We will also work aggressively to attract the other 2.22 billion potential customers.

Furthermore, we plan to increase the number of bottles carried per Yakult Lady by upgrading our human resource development programs, raising the level of motivation, and enhancing our product lineup.

According to our goal for fiscal 2020, "Yakult Vision 2020," the target for fiscal 2020 is 36.5 million bottles per day, of which 27.5 million bottles per day are consumed overseas. We are confident, however, that we can reach this target during fiscal 2016 by accelerating the rate of increase in the number of Yakult Ladies as well as the number of bottles carried—as mentioned above—while promoting store sales and utilizing numerous marketing methods.

Yakult will continue to create markets through steady, thorough efforts to deliver good health and smiles to as many people as possible in the world.

Global Progress of the Yakult Lady System



*Under the equity method, the total is 3.42 billion people in the 12 countries in which the Yakult Lady System was introduced, and the marketing population is 1.18 billion.

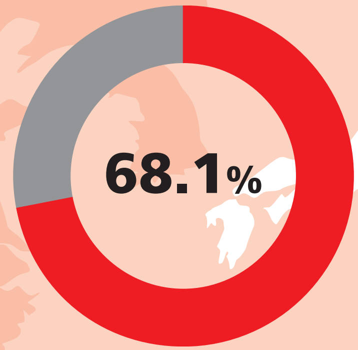
Review of Operations

Note: Sales by business segment and percentage of net sales by region include intersegment transactions.

JAPAN

Yakult pursues several businesses in Japan. In addition to the Food and Beverages business centered largely on Probiotic products, our Pharmaceuticals business entails manufacture and sales aimed at developing Yakult into a pharmaceuticals specialist in the treatment of cancer. Cosmetics and a professional baseball team, meanwhile, are central operations in our “Others” business segment. For the fiscal year ended March 31, 2014, net sales in Japan came to ¥253.8 billion.

Percentage of Net Sales by Region (%)



Net Sales

Food and Beverages


New Yakult


Yakult 400


Joie


Mil-Mil


Sofuhl

In Probiotic products, Yakult expanded activities aimed at promoting the value and appeal of products focused on our proprietary living *Lactobacillus casei* strain Shirota by emphasizing the scientific evidence for its effects. In November 2013, we launched *New Yakult* and *New Yakult Calorie Half*, for which we boosted the number of *Lactobacillus casei* strain Shirota and further increased the commercial value of mainstay fermented milk drinks *Yakult* and *Yakult Calorie Half*. By doing so, we, as a Probiotics pioneer, further strengthened the Yakult brand.

Through our home delivery channel, we promoted sales activities that get people to try our products through samples or trial use, centered on our mainstay fermented milk drinks *Yakult 400* and *Yakult 400LT*. We also emphasized new health values of our products, introducing in limited regions the new functional drink *Nyusankin soy α*, which enables people to easily take in both *Lactobacillus casei* strain Shirota and isoflavones, in May 2013.

Through our retail store channel, we conducted activities to explain the value of our products to customers using our promotion staff, focusing on *New Yakult*, *New Yakult Calorie Half*, and other fermented milk drinks, including *Yakult Ace*, which was launched in March 2013, and *Yakult Fruity* containing cassis juice, which was released in September 2013. In addition, we held seasonal in-store fairs throughout the year. Through these efforts, we strove to boost sales.

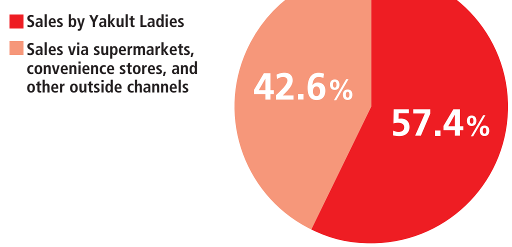
By product, for the drinkable yogurt *Joie* series we launched the time-limited item *Joie Peach* in June 2013, which was developed jointly with actress Ayame Goriki. We also introduced *Joie Lemon* in September 2013 and *Joie Orange* in February 2014 for a limited period. As for the *Sofuhl* hard-type yogurt series, we released the limited-time item *Sofuhl Apple* in October 2013. Thus, we worked hard year-round to revitalize our yogurt-category brands and increase their sales.

Due to these measures, overall sales of dairy products were higher than in the previous fiscal year.

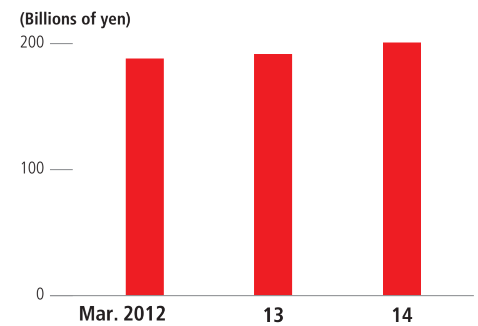
Meanwhile, in juices and other beverages, we strove to revitalize our mainstay brands. We renewed *Toughman* and *Bansoreicha*, and launched limited-time items in our *Milouge* series. In January 2014, we renewed *Kurozu Drink* by including the Company's galactooligosaccharide compound. The renewed *Kurozu Drink* obtained approval to use the "Food for Specified Health Uses" label. Despite these measures to bolster sales, however, sales in the juices and other beverages segment did not increase and sales actually declined from the previous fiscal year.

Net sales in the Food and Beverages business increased to ¥200.5 billion, or 4.5%, from the previous fiscal year.

Breakdown of Probiotic Products Sales by Channel (%)



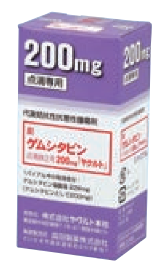
Net Sales of Food and Beverages



Pharmaceuticals

CAMPTO 40mg for I.V. infusion

ELPLAT I.V. INFUSION SOLUTION 100mg



Gemcitabine for I.V. infusion 200mg 「Yakult」

In Japan, we actively held lectures and medical office briefings targeting medical professionals. Through this, we aimed to promote further dissemination of the standard treatment for advanced or recurrent colorectal cancer that uses the cancer chemotherapeutic agent *Elplat*, and educate attendees about FOLFOX and XELOX regimens for adjuvant chemotherapy (a chemotherapy to prevent recurrence of cancer). We also promoted activities recommending the proper use of a FOLFIRINOX regimen, which uses the cancer chemotherapeutic agents *Campto* and *Elplat* and the activated folinic acid drug *Levofolinate Yakult*, as the expanded application of FOLFIRINOX regimen for pancreatic cancer was approved in December 2013. In addition, we worked to expand the market share and sales channels for antineoplastic

antimetabolite *Gemcitabine* Yakult, recombinant G-CSF preparation *Neu-up*, and *Imatinib* Yakult, a generic antineoplastic drug that was listed in Japan's drug price tariff in December 2013, and to increase sales of these drugs by focusing on marketing activities specialized in oncology.

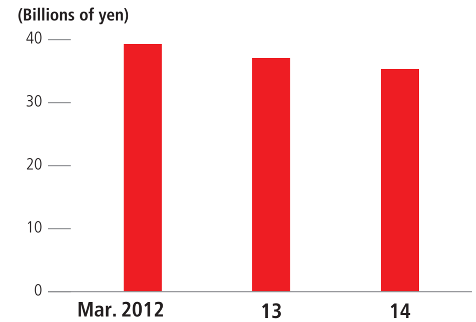
However, sales in Japan declined from the previous fiscal year, affected mainly by a decrease in the administration courses of the mainstay *Elplat*.

In R&D, we are working to obtain approval for an expanded indication of *Elplat* for gastric cancer. We also drove forward the development pipeline of hypoxia activated prodrug *PR610* in cooperation with Proacta Inc., PI3K/Akt inhibitor *Perifosine* by Æterna Zentaris Inc., oral HDAC inhibitor *Resminostat* by 4SC AG, humanized monoclonal anticancer antibodies program *LIV-2008* in cooperation with LivTech Inc., and antibody biosimilars in cooperation with UMN Pharma Inc. and API Co., Ltd. Furthermore, we obtained marketing authorization of *Zoledronic* acid intravenous infusion, a generic drug for bone complications (pain) from bone metastasis, in February 2014, and are preparing for the launch. Through these efforts, we aim to make our position in oncology more solid.

Outside Japan, with the progress of the shift to generic drugs, exports of the active pharmaceutical ingredient of *Campto* became stagnant due to tough price competition.

As a result, net sales in the Pharmaceuticals segment dropped 4.7%, to ¥35.3 billion.

Net Sales of Pharmaceuticals

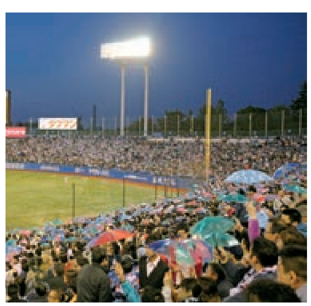


Others

This segment encompasses Yakult's cosmetics operations as well as its professional baseball team operations.

In our cosmetics operations, we continued to promote the value and appeal of basic skin care products, namely, our core brands *Parabio*, *Revecy* and *Revecy White* based on home visits to counsel customers on cosmetics.

Parabio



The home baseball stadium filled with Yakult Swallows fans

Specifically, we introduced product sets that people can easily try for a week from the *Revecy* series and the *Revecy White* series, in addition to the set already available from the *Parabio* series, and worked to attract new customers by implementing sales measures for which key products and themes were set every quarter.

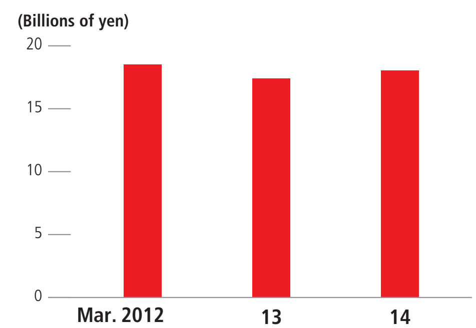
In November 2013, we released the essence *Becycle Lift Repair Essence*, which adds firmness and elasticity to the skin, and worked to increase sales.

As a result, earnings of cosmetics operations overall expanded compared to the previous fiscal year.

In the professional baseball team operations, we actively promoted measures to attract spectators to Meiji Jingu Stadium, the home ground of the Tokyo Yakult Swallows, including a range of events and fan services. This led to an increase in the number of spectators at the stadium.

As a result, the Others segment saw net sales increase 3.5%, to ¥18.0 billion.

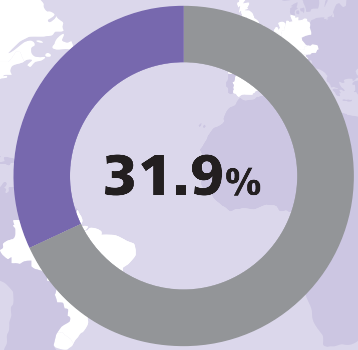
Net Sales of Others



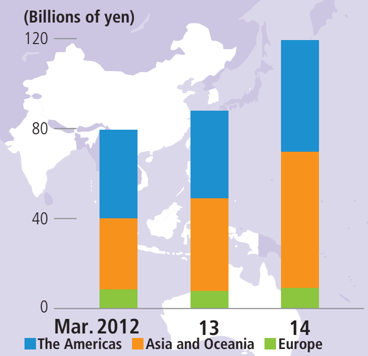
INTERNATIONAL BUSINESS

Overseas, we are developing the Company's Probiotics operations in three regions—the Americas, Asia and Oceania, and Europe—with the goal of establishing *Yakult* as a truly global brand. As of March 31, 2014, *Yakult* Probiotic drinks and other products are sold in 32 countries and regions, excluding Japan, with an average of 23.41 million bottles sold per day during the year under review. For the fiscal year ended March 31, 2014, the International Business recorded net sales of ¥118.9 billion.

Percentage of Net Sales by Region (%)



Net Sales



The Americas

Brazil, Uruguay, Mexico, Belize, the United States, Canada

Brazil

Mexico

United States

Brazil

In the Americas, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Brazil and Mexico, and imports products for sale in the United States, and other countries.

In Mexico, responding to a rise in consumer health awareness and an increase of interest in and expectation of functionality of foods, we changed all four products of the *Sofúl* hard-type yogurt series to the lower calorie-type *Sofúl LT* in May 2013.

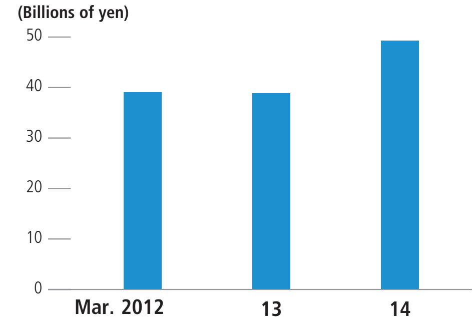
In Brazil, in response to growing health awareness among consumers and the resulting need for low-calorie products, we began to sell the reduced-calorie *Sofyl Light* hard-type yogurt in January 2014.

In the United States, since fiscal 2012, Yakult has been constructing its first production facility in the country, with production scheduled to start in May 2014.

Net sales in the Americas increased to ¥49.2 billion, or 26.9%, from the prior fiscal year.


Mexico

Net Sales in the Americas



Asia and Oceania

Taiwan, Hong Kong, Thailand, South Korea, the Philippines, Singapore, Brunei, Indonesia, Australia, New Zealand, China, Malaysia, Vietnam, India

Indonesia

Australia

China

Hong Kong

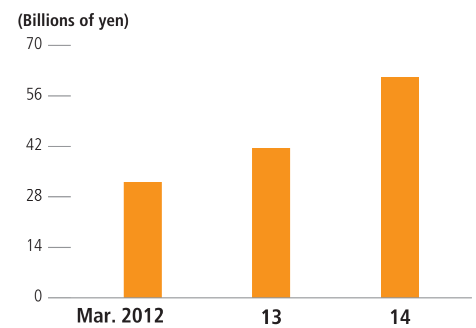
Vietnam


China (Guangzhou)

In Asia and Oceania, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Hong Kong, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, China and other countries.

In China, with the increase in sales volume of *Yakult*, we expanded production capacity at Tianjin Yakult Co., Ltd. (Tianjin Plant), and are constructing a second factory building on the plant's premises, with production scheduled to start in June 2014. We also started production of *Yakult* at Guangzhou Yakult Co., Ltd.'s second plant in March 2014. In addition, we established a production company for *Yakult* (as a new plant) in Wuxi, Jiangsu Province, with production scheduled to start in the first half of 2015. Furthermore, we expanded sales areas successively, for example, by establishing three new branches in the inland areas of mainland China to reinforce sales. As of March 2014, the average daily sales of *Yakult* were about 4.23 million bottles in China.

Net Sales in Asia and Oceania



In Indonesia, responding to the rise in sales volume, we constructed a second plant in Mojokerto, East Java (on the outskirts of Surabaya) and began production there in January 2014.

Net sales in Asia and Oceania increased to ¥61.0 billion, or 47.8%.

Vietnam

Europe

Germany

The Netherlands, Belgium, France, Luxembourg, Switzerland, the United Kingdom, Ireland, Germany, Spain, Austria, Italy, Malta

The Netherlands

Belgium

United Kingdom

Austria

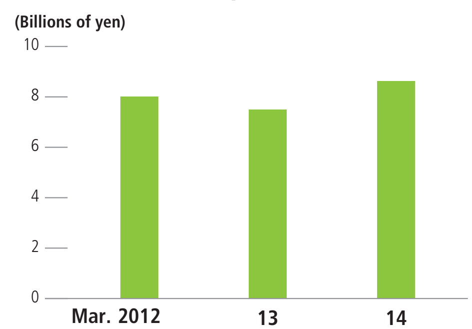
Italy

In Europe, Yakult manufactures the fermented milk drink *Yakult* and other *Yakult* series products in the Netherlands, and sells them in the Netherlands, Belgium, the United Kingdom, Germany, Austria, Italy and other countries.

In the European region, we started selling *Yakult* in Malta in April 2013, and in Switzerland in October 2013, both through the retail store channel. We also began sales of *Yakult Plus*, a high value-added fermented milk drink with dietary fiber, in Germany and Austria in September 2013 and in the Netherlands in March 2014.

Net sales in Europe increased to ¥8.6 billion, or 15.5%, from the prior fiscal year.

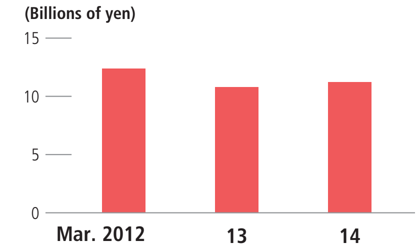
Net Sales in Europe



Research and Development

Since the Company's foundation, its R&D activities have vitally underpinned its ability to create products that promote good health today and in the future. The R&D Division pursues fundamental research in life science aimed at developing and applying basic materials in food, pharmaceuticals, cosmetics and other areas.

Research and Development Costs



The Yakult Central Institute and the Yakult Honsha European Research Center

Located in Kunitachi, Tokyo, since 1967, the Yakult Central Institute, originally established in Kyoto in 1955 as the Shirota Research Institute, is a cutting-edge research facility in the Probiotics field that investigates life science to benefit human health.

The study of useful microorganisms, particularly intestinal microbiota, is the guiding theme of research, and the institute has recorded numerous achievements, including the discovery and use of lactic acid bacteria with high levels of functionality. The Yakult Central Institute has constructed several new facilities in the aim to continue being a leader in this field and carry on its groundbreaking research at a higher level. In June 2009, a building for food research equipped with the latest in laboratory facilities was completed. Presently, phase II of the new laboratory construction project is well under way, with completion targeted in October 2015. Based on the concept of a "laboratory surrounding forests and water designed to blend perfectly with the surrounding lush green fields," the Yakult Central Institute will be enhanced with additional cutting-edge facilities, which will enable researchers to efficiently carry out development projects and joint research.

The Yakult Honsha European Research Center for Microbiology, ESV (YHER) was established in Ghent, Belgium, in May 2005. The YHER gathers scientific evidence on the benefits of drinking our Probiotics products. By establishing a research base in Europe, an advanced region for study of microorganisms, our goal is to support global business expansion encompassing not only Europe but also the Americas and Asia.

Organization of the Yakult Central Institute for Microbiological Research

Research and Development

Basic Studies

•Intestinal flora •Biophylaxis •Probiotics •Cancer prevention •Intestinal immunity
•Genomic analysis of microorganisms •Discovery of yet-unknown intestinal bacteria

Screening of Basic Materials of Food, Pharmaceuticals, and Cosmetics

•Discovery and improvement of useful microorganisms •High-level purification and processing of enzymes
•Development of techniques for utilization of food materials
•Discovery and utilization of effective components in natural organic substances
•Detection and improvement of useful components of milk •Chemical synthesis and modification of organic compounds

Verification of functions of food materials | **Determining pharmacological effects and mechanisms** | **Verification of functions of cosmetic ingredients**

Product Feasibility Tests

Safety testing | **Industrial feasibility tests**

New food materials | **New pharmaceutical materials** | **New cosmetic materials**

Recent R&D Accomplishments

Exterior view of bio-incubator facility located in the Technologiepark
* The YHER is located on the first floor of this building.

Yakult Central Institute

Reduction of Breast Cancer Onset Risk in Patients Who Regularly Consumed *Lactobacillus casei* Strain Shirota
Joint Research Study by Kyoto University Hospital Breast Surgery Department and University of Tokyo Graduate School of Medicine

The Company participated in an epidemiological study conducted by Kyoto University Hospital Breast Surgery Department and the University of Tokyo Graduate School of Medicine, as part of the Public Health Research Foundation's comprehensive support project for oncology research on breast cancer. This study comprised patients who were suffering from breast cancer and others who were not. This research demonstrated that patients could reduce their breast cancer onset risk by consuming *Lactobacillus casei* strain Shirota in their 20s and 30s, covering the latter stage of the growth period as well as the age when the number of breast cancer patients begins to increase. The research also showed that taking soy isoflavones at the same time could have an additive effect. The results of the research were published in the academic journal *Current Nutrition and Food Science*.

Improvements in the Liver Function of Alcoholic Cirrhosis Patients Who Consumed *Lactobacillus casei* Strain Shirota on a Continuous Basis
Joint Study with Kurume University

Together with Kurume University, Yakult conducted a study targeting alcoholic cirrhosis patients using a fermented milk drink containing 40 billion *Lactobacillus casei* strain Shirota. Results showed that consuming a fermented milk drink could improve the intestinal microbiota, lower the C-reactive protein (CRP) level, which is an inflammation marker in the blood, and improve the hepatic protein synthesis function of the liver. As a result, it was concluded that continuously drinking a fermented milk drink containing *Lactobacillus casei* strain Shirota improved liver function in alcoholic cirrhosis patients. The results of the research were published in the academic journal *Hepatology International*.

CSR Activities

As a leading Probiotics company, Yakult believes it can fulfill its social responsibilities by putting into practice its corporate philosophy of "We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular." This is accomplished through the principles of Shirota-ism, which we have followed since the Company's foundation. Furthermore, given the critical situation of the global environment, we recognize that it is extremely important for us to create a resource-recycling, sustainable society and that this is one of the responsibilities we must fulfill.

The Environment

Yakult first established an internal organization dedicated to preserving the global environment back in November 1991. This was followed in June 1997 by the creation of the "Yakult Basic Policy on the Environment," which encompasses the entire Group. Guided by the environmental philosophy and directives for action found in this policy, we promote environmental protection activities in every aspect of our business operations. In March 2004, our directives for action were revised to make these guidelines more specific. Moreover, to contribute to the conservation of biodiversity, we revised the directives in January 2010. For Yakult, a company that thrives on the bounty of nature represented by the lactobacilli in our products, we have spelled out our stance that being aware of the global environment and biodiversity is indispensable to conducting sustainable corporate activities.

In March 2001, the Company drafted the first stage plan of the "Yakult Environmental Action Plan," and starting from the fiscal year ended March 31, 2002 we have implemented environmental protection measures in all business areas, including R&D, production, sales and administration, to reduce the environmental burden caused by our business activities. Since the fiscal year ended March 31, 2014, we have implemented the fifth stage of our plan, which includes measures to reduce greenhouse gas emissions and waste, and cut the volume of printer paper we use.

Recognizing the need to continuously implement such activities in tandem with business operations, in March 2004 we sought to transform all of our Group companies in Japan into "green companies" by 2010. In this way, we established "Yakult Eco Vision 2010," which aims to help preserve the global environment and create a sustainable society and has attained successful results. This was followed by the start of "Yakult Sustainable Ecology 2020" from the fiscal year ended March 31, 2013 to the target year of 2020. While describing the future of the Company in specific terms according to the three aspects of "realization of a low-carbon society," "promotion of efficient use of resources" and "preservation of biodiversity," this aims to achieve a sustainable society in harmony with our stakeholders.

In the fiscal year ended March 31, 2014, Yakult carried on its initiatives from the previous year, continuing to introduce renewable energy with solar power generation and other forms, implementing greenhouse gas reduction efforts at dairy product plants and in logistics operations, striving to achieve zero waste emissions, and promoting fuel conversion.

Community Activities

Initiatives by the Yakult Ladies

Since 1972, the Yakult Ladies have been carrying out "Courtesy Visit Activities," which entail checking on the well-being of elderly people living alone and chatting with them while delivering Yakult products. In September 2013, as part of this initiative, the Yakult Ladies presented elderly people living on their own with flowers and a message card. It was the ninth instance of this program, and because the program has brought such joy to both the Yakult Ladies presenting the flowers and elderly recipients alike, we plan to maintain these activities in the hope that everyone involved will continue to enjoy happy and healthy lives.

The Yakult Ladies also contribute to safety and peace of mind in local communities by organizing crime prevention and safety patrols and maintaining contact with the police and local governments.

Public Access to Plants

To deepen people's understanding of Yakult's products and the Group's commitment to environmental awareness and safe, reliable products, we conduct tours of Yakult Honsha and other Group company plants. In the fiscal year ended March 31, 2014, tours were held at all domestic plants, except at those where tours were temporarily suspended due to equipment work, and approximately 190,000 people from the general public participated. Plant tours also take place at nearly all of our overseas plants. In addition, each year we hold plant festivals, and invite the local community and the families of our employees to participate, with the aim of improving relations with local communities. In the fiscal year ended March 31, 2014, a total of about 23,000 people participated in these festivals.

Children at a Malaysia plant tour

Conservation Activities

In the fiscal year ended March 31, 2013, Yakult concluded an official sponsor agreement with the C. W. Nicol Afan Woodland Trust, for which well-known author C. W. Nicol serves as chairman, and has been supporting the trust's forest conservation activities since then. In October 2013, Yakult Honsha employees carried out activities in Shinano-machi, Nagano Prefecture that were designed to help them gain awareness of the importance of preserving the natural environment and allow them to acquire first-hand experience in this regard. Guided by staff from the trust, participants removed underbrush, an important activity for preserving woodland, and learned about activities designed to regenerate village-vicinity landscapes and forests inhabited by a rich diversity of local wildlife.

In addition, as one of our conservation activities, we participated in the Green Wave 2013 in which we planted trees at 18 locations across the country including the Group's domestic plants. Initiated in 2009, the Green Wave is a campaign promoted by the Secretariat of the Convention on Biological Diversity. The campaign calls for participants around the world to plant trees or implement other green activities on May 22 at 10:00 a.m. local time. These activities, which begin in East Asia and travel west around the world, are called the "green wave."

Environmental Protection Campaign

Since 1994, Yakult has implemented the Environmental Protection Campaign to promote awareness on environmental protection among our employees. This is an ongoing campaign implemented each June—designated as Environment Month as advocated by the Japanese Ministry of the Environment—with timely themes such as the 3Rs, reduction in shopping bags, and biodiversity. For our 19th campaign, during the fiscal year under review we collected from our employees humorous poems about the environment and donated funds to the OISCA Children's Forest Project, which will be implemented at Viti Levu in Fiji.

Up until now, a cumulative total of more than 140,000 Yakult Group employees have participated in this campaign. We will continue to engage in activities to boost awareness of the need for environmental protection by providing thorough environmental education to each and every employee.

Corporate Governance

1. Basic Stance

Our basic stance on corporate governance is to promote highly transparent management that is committed to the steady development of operations in our core business domain.

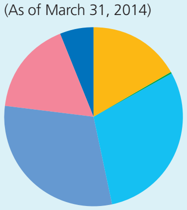
Our corporate philosophy is "We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular." In pursuing this philosophy, we believe it is important to implement transparent management with an emphasis on well-developed internal control functions. This includes efforts to ensure an appropriate management organization and decision-making processes. Corporate governance at the Company is also underpinned by the "company with Audit & Supervisory Board Members" system.

2. Capital Composition

The distribution of ownership among shareholders (on a number of shares basis) and major shareholders is as follows:

Distribution of Ownership Among Shareholders

(As of March 31, 2014)



Japanese financial institutions	16.72%
Japanese securities companies	0.42%
Other Japanese corporations	29.55%
Foreign institutions and others	30.26%
Japanese individuals and others	17.05%
Treasury stock	6.00%

Major Shareholders

(As of March 31, 2014)

	Percentage of total shares issued
Barclays Bank PLC, Singapore Nominee/Danone Probiotics Private Ltd.	20.02%
Fuji Media Holdings, Inc.	3.69
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Mizuho Bank Account))	2.82
Matsusho Co., Ltd.	2.80
Kyoshinkai	2.53
The Master Trust Bank of Japan, Ltd. (Trust account)	1.52
Kirin Beverage Corporation	1.40
Japan Trustee Services Bank, Ltd. (Trust account)	1.25
Mizuho Bank, Ltd.	1.24
Teruo Nakamura	1.15

Note: In addition to the above, the Company holds 6.00% of its own shares.

3. Governing Bodies, Organizational Operations and Operational Execution

Board of Directors

The Board of Directors is composed of 15 directors, including four outside directors, and holds meetings in principle seven times each year, in addition to convening special meetings as needed. The seven Audit & Supervisory Board Members also attend meetings. The Board of Directors deliberates on matters within its jurisdiction as defined by law and company rules, and is responsible for supervising the status of business execution.

The Company introduced the Executive Officer System in June 2011. This system strengthens the decision making of the Board of Directors and business supervision functions, and clarifies responsibilities for business execution, thereby increasing the efficiency of these functions.

As a system of support for outside directors, the General Affairs Department functions as the secretariat for the Board of Directors, and serves in this capacity as a point of contact for all Company officers, including outside directors.

The four outside directors are listed in the chart below.

(As of June 25, 2014)

Name	Outside Positions as Representative	Reason for Appointment as Outside Director
Ryuji Yasuda	Professor, International Business Strategy, Graduate School of International Corporate Strategy, Hitotsubashi University; Outside Director, Daiwa Securities Group Inc.; Outside Director, Fukuoka Financial Group, Inc.; Outside Director, The Bank of Fukuoka, Ltd.; Outside Director, ORIX Corporation; Outside Auditor, the Asahi Shimbun Company	Mr. Yasuda was appointed on the expectation that he would offer pertinent advice regarding the overall management of the Company that would further strengthen and enrich its management structure based on the expertise in business strategy he has accumulated over the years in wide-ranging positions including those of university professor, consultant and business manager.
Masayuki Fukuoka	Professor, Faculty of Law, of Hakuoh University; specially approved visiting Professor of Tohoku Fukushi University; Assist (Japan) Secretary General	Mr. Fukuoka was appointed on the expectation that he would offer objective views to the Company's management that would lead to further reinforcement and enhancement of the management structure based on his expertise and experience as a university professor of political science studies. While he has no experience of direct involvement in management of a company except as an outside officer, the Company believes that he will be able to perform the duty of outside director appropriately for the above reason.
Christian Neu	Strategic Advisor, Danone S.A.; Director, China Mengniu Dairy Co., Ltd.	Mr. Neu was appointed on the expectation that he would offer pertinent advice from a broad perspective regarding overall management, which would lead to further strengthening and enhancement of the management structure based on his abundant overseas management experience.
Bertrand Austruy	Group General Counsel and VP Product Compliance, Danone S.A.	Same as above.

Management Policy Council and the Executive Officers Committee

The Company has established a set of meetings, the Management Policy Council and the Executive Officers Committee, designed to promote effective management activities and accelerate decision making. These meetings are, in principle, convened on a weekly basis.

Audit & Supervisory Board Members

The Company has seven Audit & Supervisory Board Members, including four outside Audit & Supervisory Board Members. All Audit & Supervisory Board Members attend meetings of the Board of Directors and other important company meetings and audit the operational execution of the directors by examining documents related to decision making and other matters. The

Audit & Supervisory Board Members strive to enhance the effectiveness of their audits by forging close ties with the Internal Audit Department and the accounting auditor.

The system of support for the Audit & Supervisory Board consists of a staff assigned exclusively to the Audit & Supervisory Board Members that functions as the secretariat for the board. Furthermore, the Audit & Supervisory Board convenes prior to meetings of the Board of Directors and other important meetings to discuss the proposed agenda for the meetings, and to share information gathered from materials provided by relevant department and division heads, as well as information gained from explanations received firsthand and by other means. Furthermore, with respect to systems for conveying information to outside Audit & Supervisory Board Members, the full-time Audit & Supervisory Board Members issue progress reports on a regular basis, and provide the outside Audit & Supervisory Board Members with a range of materials, including those from important company meetings and decision making and audit-related materials.

The four outside Audit & Supervisory Board Members are listed in the chart on the right.

Internal Audits

Internal audits are conducted by the Auditing Department, an organization that reports directly to the Company's President and that performs financial and operational audits, including those of Group companies in Japan and overseas. The head of the Auditing Department currently oversees a 14-member staff responsible for risk avoidance and other internal audit functions. These personnel conduct internal audits spanning the operations of all internal departments and Group companies, as well as issuing concrete advice and warnings with respect to operational improvements.

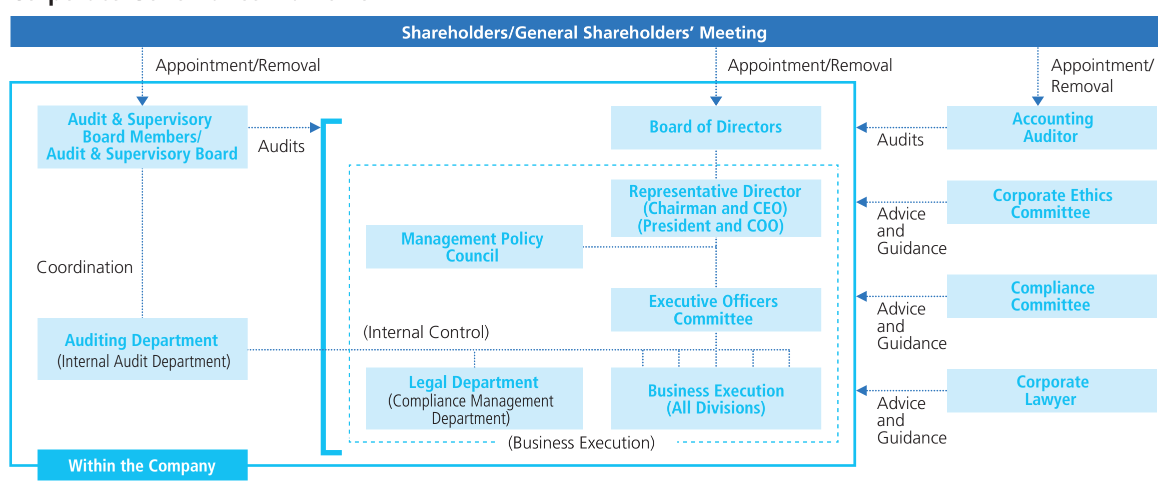
Accounting Auditor

The Company has appointed Deloitte Touche Tohmatsu LLC to serve as the accounting auditor for the audit of its business accounts as required by law. Compensation is paid to the accounting auditor based on an auditing contract signed with Deloitte Touche Tohmatsu.

(As of June 25, 2014)

Name	Outside Positions as Representative	Reason for Appointment as Outside Audit & Supervisory Board Member
Akihiko Okudaira	Lawyer	Mr. Okudaira was appointed on the expectation that his expertise as a lawyer and abundant experience would be reflected on auditing of the Company that would lead to further reinforcement and enhancement of the Company's management structure. While he has no experience of being directly involved in the management of a company except as an outside officer, the Company believes that he will be able to continue to perform the duty as an outside Audit & Supervisory Board Member appropriately for the above reason.
Ryohei Sumiya	Certified Public Accountant	Mr. Sumiya was appointed on the expectation that his expertise as an accountant and abundant experience in corporate accounting would be reflected on auditing of the Company that would lead to further reinforcement and enhancement of the Company's management structure. While he has no experience of being directly involved in the management of a company except as an outside officer, the Company believes that he will be able to continue to perform the duty as an outside Audit & Supervisory Board Member appropriately for the above reason.
Seijuro Tanigawa	President of Yakult Kobe Sales Co., Ltd.	Mr. Tanigawa was appointed on the expectation that his long record of managing a Yakult sales company would be an advantage when performing audit operations primarily on the legality of the directors' execution of duties, thus contributing significantly to the development of the entire Yakult Group.
Setsuko Kobayashi	President of Yakult Joetsu Sales Co., Ltd.	Same as above.

Corporate Governance Framework



Corporate Governance

4. Internal Control Systems and Policies

The Company resolved at the Board of Directors' meeting on May 19, 2006 to establish an internal control system as mandated for a large company with a Board of Directors by the Companies Act and its enforcement regulations. The Company revises the details of this resolution promptly in response to changes inside and outside the Company. At the current time, the details are as follows:

The Company aims to proceed with its business activities in accordance with its corporate philosophy, "We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular." To achieve this, the Company believes that it is important to implement management that places emphasis on strengthening and enhancing internal control functions as a company that is widely trusted by society.

Based on this perspective, the Company has made the following resolutions on basic policies regarding building internal control systems after reconfirming the current situation at the Company in relation to the development of internal control systems.

Meanwhile, the contents of the resolutions will be revised on a timely basis in line with revisions to laws and environmental changes inside and outside the Company, aiming to further strengthen and enhance internal control systems.

i) Systems to ensure that the performance of duties by directors and employees complies with laws and articles of incorporation

As standards for executives and workers to properly perform business activities, the Company has established the Yakult Code of Ethics and Code of Practice. The Yakult Code of Ethics and Code of Practice have been distributed to all persons concerned, aiming to familiarize them with the details of the codes. At the same time, the Company is continuously offering in-house training programs regarding compliance.

In addition, a meeting of the Compliance Committee, which consists of external knowledgeable persons, is held on a regular basis to receive advice regarding the development of the Company's compliance system.

Furthermore, the Company has established an "internal reporting system," aiming to improve the self-cleaning functions by which it detects its own violations of law and takes corrective actions.

In addition, the Company will resolutely block and repudiate anti-social forces that pose a threat to business activities. We will also maintain a close relationship with the police under normal circumstances. At the same time, we will endeavor to supervise transactions through the Corporate Ethics Committee, which consists of external experts as the main committee members, and will tackle any unreasonable claims organizationally and take all possible legal measures.

ii) Systems regarding preservation and management of information related to the performance of duties by directors

Minutes of general shareholders meetings and Board of Directors meetings are preserved properly in accordance with law.

In addition, in line with the Rules for Handling Documents, information related to the performance of duties by directors is recorded and preserved in documents or electromagnetic media (hereinafter referred to as "documents and other media").

Directors and Audit & Supervisory Board Members can look through the minutes and the documents and other media at any time.

Furthermore, the Rules for Handling Documents include rules regarding maintaining confidentiality and taking preventive measures against information leakage.

iii) Rules and other systems regarding the management of risks for losses

The Administrative Division plays a central role in supervising the conditions of cross-sectional risk and making company-wide responses. The department concerned handles the management of risks related to the operations of each department.

In addition, to respond to crises that appear suddenly, there are the Risk Management Rules, which include a rule to have the Company's President or divisional managers serve as the head of various task forces set up in accordance with the details of crisis situations.

Furthermore, to provide safe products to customers and establish a quality assurance system, the Quality Assurance Committee has been established and its meetings are being held. In addition, the Food & Beverages Quality Assurance Department has been established as an independent department to carry out exclusive company-wide supervisory operations related to food quality assurance.

iv) Systems to ensure that the performance of duties by directors is efficient

The Company has introduced the Executive Officer System to strengthen the functions of the Board of Directors to make decisions and supervise as well as to define the responsibilities in executing operations, and ultimately to improve the efficiency of these functions.

In addition, the Company's decision-making methods are stipulated in the Rules for Decision-Making, aiming to make decisions in line with the level of importance. At the same time, a management policy meeting and the Executive Officers Committee are held every week in principle, aiming to speed up decision making.

Moreover, to carry out business operations efficiently, the organizational structure of the Company and its management standards are stipulated in the Organization Rules and the Table of Division of Duties.

v) Systems to ensure that operations at the concerned joint-stock company and the corporate group consisting of the joint-stock company's parent company and subsidiaries are appropriate

The Company endeavors to ensure that operations at its subsidiaries are appropriate by sending its executives or employees to the subsidiaries and having them serve as executives of the subsidiaries.

In addition, the Rules for the Management of Affiliates and the Rules for the Management of Foreign Affiliates include provisions to require the subsidiaries and affiliates to obtain advance approval and provide reports. At the same time, the Company has established an internal support system by setting up a department in charge of the management of the subsidiaries for securing the appropriate operations.

Furthermore, the Auditing Department, which is the Company's internal auditing department, carries out audits.

vi) Matters regarding employees who support the duties of Audit & Supervisory Board Members in cases in which Audit & Supervisory Board Members make a request to assign such employees

Employees who have a thorough knowledge of the Company's business operations and can properly support the duties of Audit & Supervisory Board Members serve as full-time staff members who support Audit & Supervisory Board Members. In terms of the organizational structure, the staff members serve as "auditing officers" and are independent of the Auditing Department, which is an internal auditing department. They carry out operations under the direct supervision of Audit & Supervisory Board Members.

vii) Matters regarding the independence of employees who support the duties of Audit & Supervisory Board Members, who are mentioned in the previous item, from directors

To secure the independence of full-time employees who support the duties of Audit & Supervisory Board Members from directors, such employees do not belong to any department in the organization and are not under the supervision of directors.

In addition, full-time Audit & Supervisory Board Members directly evaluate the performance of such employees to respect their independence.

viii) Systems for directors and employees to provide reports to Audit & Supervisory Board Members and other systems regarding reports provided to Audit & Supervisory Board Members

Audit & Supervisory Board Members attend Board of Directors meetings and other important meetings and read minutes of such meetings on an as-needed basis. In addition, Audit & Supervisory Board Members confirm the details of important requests. There is a system in which Audit & Supervisory Board Members can be apprised of the details of such requests.

Furthermore, reports regarding the results of internal audits are provided to Audit & Supervisory Board Members on a regular basis. The Rules for Audits by Audit & Supervisory Board Members also stipulate that Audit & Supervisory Board Members can request directors to provide business reports and request related departments, subsidiaries, and other parties to provide reports if necessary.

ix) Other systems to ensure that audit operations of Audit & Supervisory Board Members are carried out effectively

The Rules for Audits by Audit & Supervisory Board Members ensure that Audit & Supervisory Board Members effectively exercise the authority to "attend Board of Directors meetings and other important meetings," "ask for explanations in cases of failure to attend meetings and read minutes and documents," "read documents necessary to investigate business conditions and request related departments to provide reports," and "request subsidiaries and affiliates to provide reports and investigate business and asset conditions."

In addition, they can hear opinions from lawyers, certified public accountants, consultants, and other outside experts if necessary.

5. Other Corporate Governance Systems

(1) Basic approach regarding timely disclosure

- With respect to information disclosure, especially in a timely manner, in the Yakult Code of Ethics and Code of Practice, the Company makes the following commitment: "The Company will actively disclose all relevant information to all stakeholders, including our customers, shareholders, employees, business partners, local communities, industry groups, government, and non-profit organizations, and increase the transparency of management, to gain the full trust of society through our corporate activities." Based on this approach, the Company is disclosing information in a timely manner.

(2) Internal structure related to timely disclosure

- Facts and data appropriate for public disclosure from each department within the Company (including subsidiaries) are compiled by the Public Relations Department. In parallel, each department within the Company, pursuant to the Rules for Decision-Making, decides items for disclosure based on prescribed decision-making procedures. Facts and data not vetted in this manner are not publicly disclosed. When

making final decisions, the disclosing department liaises with the General Affairs Department, the body responsible for coordinating timely disclosure, as it moves decision-making procedures forward, during which time a determination is made of the necessity for timely disclosure. The General Affairs Department refers to two standards in making this determination: the Rules for Timely Disclosure and the status of other finalized disclosure decisions within the Company. The decision is then made to officially conduct the timely disclosure of facts and data meeting these criteria.

- The Company is listed on the Tokyo Stock Exchange (TSE). Any information from the Company marked for timely disclosure is registered on TDnet, a system for timely disclosure provided by TSE. The registration of information for timely disclosure and responses to inquiries from TSE personnel are conducted by the General Affairs Department, the body responsible for coordinating timely disclosure. Following registration, information targeted for timely disclosure is quickly transmitted simultaneously to all relevant media outlets, with related materials disclosed at the same time on the Company's website.

(3) Check functions to mitigate risks associated with the improper execution of timely disclosure

- The Company has considered a variety of risk scenarios, including those in which information marked for timely disclosure is inadvertently overlooked; information is prematurely disclosed; and data pertaining to sudden crises are not promptly disclosed. A single department, the General Affairs Department, which is responsible for coordinating timely disclosure, acquires and shares information about the criteria for determining the necessity of timely disclosure, and checks information pertaining to final decisions made internally, as well as primary information when sudden crises and incidents arise. This configuration allows check functions to work and enables timely disclosure without any omissions.

Board of Directors and Audit & Supervisory Board Members

(As of June 25, 2014)

Chairman and Representative Director
Chief Executive Officer

Sumiya Hori

President and Representative Director
Chief Operating Officer

Takashige Negishi

Directors

Yoshihiro Kawabata
Divisional General Manager of Administrative Division, and International Business Division

Masahiro Negishi
Divisional General Manager of Food and Beverages Business Division, and Cosmetics Business Division

Hiroshi Narita
Divisional General Manager of Management Support Division

Kenichi Shiino
Divisional General Manager of Research & Development Division, and Production Division

Masanori Ito
Divisional General Manager of Pharmaceuticals Business Division

Richard Hall

Chairman and Representative Director
Chief Executive Officer
Sumiya Hori

President and Representative Director
Chief Operating Officer
Takashige Negishi

Directors
Yoshihiro Kawabata
Masahiro Negishi
Hiroshi Narita
Kenichi Shiino
Masanori Ito
Richard Hall

Directors (Part-Time)
Ryuji Yasuda
Masayuki Fukuoka
Christian Neu
Bertrand Austruy
Yasuo Ozeki
Koso Yamamoto
Takashi Matsuzono

Senior Audit & Supervisory Board Members
Akinori Abe
Hiroshi Yamakami

Audit & Supervisory Board Members
Akihiko Okudaira
Ryohei Sumiya
Seijuro Tanigawa
Setsuko Kobayashi
Koichi Yoshida

Financial Section

Consolidated Five-Year Summary

YAKULT HONSHA CO., LTD. and its subsidiaries
Years ended March 31, 2014, 2013, 2012, 2011, and 2010

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2010	2011	2012	2013	**2014**	**2014**
For the year:						
Net sales	¥ 290,678	¥ 305,944	¥ 312,553	¥ 319,193	**¥ 350,322**	**$3,401,187**
Selling, general and administrative expenses	138,584	147,139	149,214	148,581	**161,965**	**1,572,474**
Operating income	18,991	20,401	20,817	23,068	**32,026**	**310,932**
Net income	13,249	13,169	13,292	16,379	**22,544**	**218,873**
Research and development costs	9,622	11,480	12,414	10,761	**11,166**	**108,406**
Capital investments	19,980	23,970	25,007	33,587	**50,163**	**487,019**
Depreciation and amortization	18,913	19,628	18,337	19,435	**20,078**	**194,929**
At the year-end:						
Total assets	¥ 389,892	¥ 392,828	¥ 397,214	¥ 438,176	**¥ 519,571**	**$5,044,375**
Net property, plant and equipment	130,391	133,717	136,963	150,612	**184,208**	**1,788,423**
Total liabilities	140,970	141,857	144,971	151,077	**211,538**	**2,053,762**
Total equity	248,922	250,971	252,243	287,099	**308,033**	**2,990,613**
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 77.11	¥ 76.55	¥ 77.32	¥ 95.03	**¥ 134.44**	**$ 1.31**
Total equity (Note 7)	1,300.21	1,313.37	1,328.61	1,517.88	**1,662.37**	**16.14**
Cash dividends applicable to the year	20.00	22.00	22.00	23.00	**24.00**	**0.23**
Financial ratios:						
Return on equity (ROE) (%)	6.2	5.9	5.8	6.7	**8.4**	
Equity ratio (%)	57.4	57.5	57.6	59.8	**52.9**	

Notes: 1. Figures are rounded to the nearest million.
2. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥103 to U.S.$1, the approximate rate of exchange on March 31, 2014.
3. Minority interests are not included in equity for the calculation.

Financial Section

Contents

Management's Discussion and Analysis

OVERVIEW

During the fiscal year ended March 31, 2014, the Japanese economy advanced towards recovery. Against a backdrop of high stock prices and yen depreciation due to the effects of monetary policy and the government's economic policies, the improvement in corporate earnings and employment conditions and the recovery in personal consumption more than offset concern over downside risks to the global economy.

In these circumstances, the Yakult Group (the "Group") worked to build awareness and understanding of the Probiotics—living microorganisms that provide health benefits by improving the balance of intestinal flora—that constitute the bedrock of our operations, while striving to communicate the superiority of our products. In addition, the Group sought to improve its performance by taking steps to shore up its sales organization, develop new products, upgrade its production facilities, and vigorously enhance its overseas operations and pharmaceuticals business.

As a result of these efforts, on a consolidated basis, net sales advanced 9.8% from the previous fiscal year, to ¥350.3 billion. Operating income climbed 38.8%, to ¥32.0 billion, while the operating margin rose to 9.1%, up 1.9 percentage points from the previous year. Consequently, net income jumped 37.6%, to ¥22.5 billion, and the return on sales increased to 6.4%, up 1.3 percentage points from the previous year results.

SALES, COSTS, EXPENSES AND EARNINGS

SALES

Net sales rose 9.8%, to ¥350.3 billion.

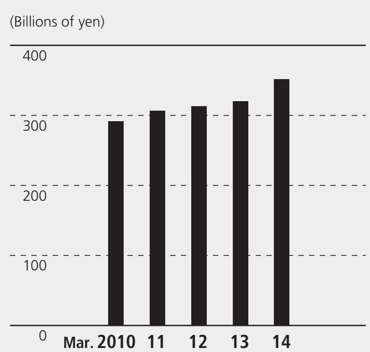
Looking at net sales by reporting segment (before reconciliation), Food and Beverages (Japan) accounted for 53.8% of sales, down 3.7 percentage points from the previous fiscal year. Food and Beverages (Overseas) accounted for 31.9% of sales, up 5.7 percentage points from the previous fiscal year. Pharmaceuticals generated 9.5%, down 1.6 percentage points from the previous fiscal year, and Others contributed 4.8%, down 0.4 percentage points from the previous fiscal year.

COSTS, EXPENSES AND EARNINGS

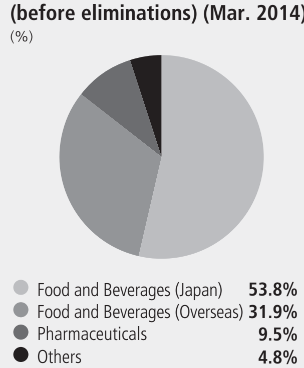
Consolidated cost of sales increased by 6.0%, to ¥156.3 billion. As a result, the cost of sales ratio fell 1.6 percentage points, to 44.6%. Gross profit increased by 13.0%, to ¥194.0 billion, and the gross profit margin increased 1.6 percentage points, to 55.4%.

Selling, general and administrative (SG&A) expenses increased by 9.0%, to ¥162.0 billion. This rise resulted mainly from higher personnel expenses accompanying the expansion of the Group's operations and an increase in advertising. The SG&A expense ratio decreased by 0.3 percentage points, to 46.2%. R&D expenses increased by ¥0.4 billion year

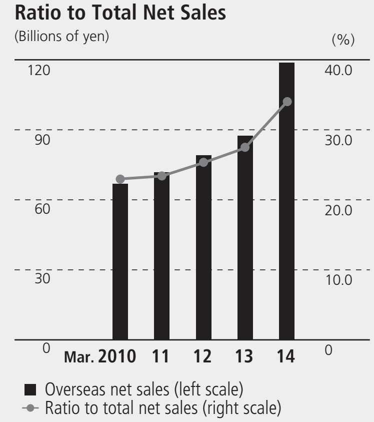
Net Sales



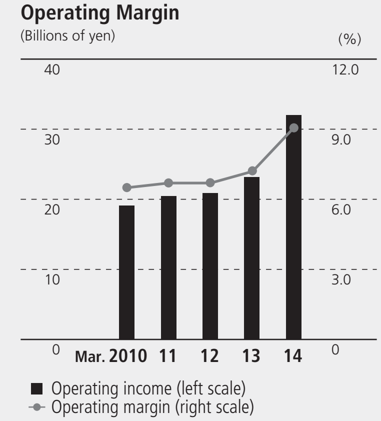
Breakdown of Net Sales (before eliminations) (Mar. 2014)



Overseas Net Sales/ Ratio to Total Net Sales



Operating Income and Operating Margin



on year, to ¥11.1 billion. As a percentage of net sales, R&D expenses fell 0.2 percentage point, to 3.2%.

As a result, operating income jumped 38.8%, to ¥32.0 billion, and the operating margin increased 1.9 percentage points, to 9.1%.

Other income—net amounted to ¥7.4 billion, up ¥2.6 billion from a year earlier, mainly due to a decrease in valuation loss on investment securities and an increase in equity in earnings of associated companies.

Income taxes amounted to ¥12.4 billion.

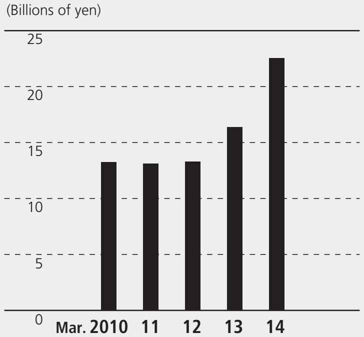
Consequently, net income increased by 37.6%, to ¥22.5 billion, and the return on sales rose 1.3 percentage points, to 6.4%.

OVERVIEW BY SEGMENT

FOOD AND BEVERAGES (JAPAN): In Probiotic products, Yakult expanded activities aimed at promoting the value and appeal of products focused on our proprietary living *Lactobacillus casei* strain Shirota by emphasizing the scientific evidence of its effects. In November 2013, we launched *New Yakult* and *New Yakult Calorie Half*, which are manufactured by boosting the *Lactobacillus casei* strain Shirota contained in *Yakult* and *Yakult Calorie Half*, further increasing the commercial value of mainstay fermented milk drinks *Yakult* and *Yakult Calorie Half*. By doing so, we, as the pioneer in fermented milk products, further shored up the Yakult brand.

Net Income

(Billions of yen)



Operating Income (loss) by Business Segment

(Billions of yen)

Through our home delivery channel, we promoted sales activities that encourage people to try our products through samples or trial use, centered on our mainstay fermented milk drinks *Yakult 400* and *Yakult 400LT*. We also emphasized the health value of our products, introducing in limited regions the new functional drink *Nyusankin soy α*, which enables people to easily take in both *Lactobacillus casei* strain Shirota and *Isoflavone*, in May 2013.

Through our retail store channel, we conducted value dissemination activities using our promotion staff to target customers, focusing on *New Yakult*, *New Yakult Calorie Half*, and other fermented milk drinks, including *Yakult Ace*, which was launched in March 2013, and *Yakult Fruity* containing cassis juice, which was released in September 2013. In addition, we held seasonal in-store fairs throughout the year. Through these efforts, we strove to boost sales.

By product, we launched the time-limited item *Joie Peach* in June 2013, which was developed based on the drinkable yogurt *Joie*, jointly with actress Ayame Goriki. We also introduced *Joie Lemon* and *Joie Orange* in September 2013 and February 2014, respectively, for a limited period. As for the *Sofuhl* hard-type yogurt series, we released the limited-time item *Sofuhl Apple* in October 2013. Thus, we worked hard year-round to revitalize our yogurt-category brands and increase their sales.

Due to these measures, overall sales of dairy products were higher than in the previous fiscal year.

Meanwhile, in juices and other beverages, we strove to revitalize our mainstay brands. We renewed *Toughman* and *Bansoreicha*, and launched the limited-time item *Milouge*. In January 2014, we renewed *Kurozu Drink* by including the Company's galactooligosaccharide compound. The renewed *Kurozu Drink* obtained approval to use the "designated health food" label. Despite these measures to bolster sales, however, sales in the juices and other beverages segment did not increase and sales actually declined from the previous fiscal year.

Net sales increased to ¥200.5 billion, or 4.5%, from the previous fiscal year, and segment profit rose 2.5%, to ¥9.8 billion.

FOOD AND BEVERAGES (OVERSEAS): Yakult's overseas operations commenced in March 1964 with the establishment of Yakult Co., Ltd. (Taiwan). They now extend to 32 countries and regions outside Japan, and are centered on 27 business bases and one research center. These operations focus primarily on the production and sale of the fermented milk drink *Yakult*. Average daily sales of all *Yakult* products overseas were approximately 24.16 million bottles in March 2014.

In the Americas, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Brazil and Mexico, and imports products for sale in the United States, and other countries.

In Mexico, responding to a rise in consumer health awareness and an increase of interest in and expectation of functionality of foods, we changed all four products of the *Sofúl* hard-type yogurt series and introduced the lower calorie-type *Sofúl LT*.

In Brazil, in response to growing health awareness among consumers and the resulting need for low-calorie products, we began to sell *Sofúl Light* hard-type yogurt, which has a lower calorie content, in January 2014.

In the United States, since fiscal 2012, Yakult has been constructing the first *Yakult* production facility, with production scheduled to start in May 2014.

Net sales in the Americas increased to ¥49.2 billion, up 26.9%, from the prior fiscal year, and segment profit climbed 32.2%, to ¥11.5 billion.

In Asia and Oceania, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Hong Kong, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, China and other countries.

In China, with the increase in sales volume of *Yakult*, we expanded production capacity for the product at Tianjin Yakult Co., Ltd. (Tianjin Plant), and are constructing a second factory building on the plant's premises. We started production of *Yakult* at Guangzhou Yakult Co., Ltd.'s second plant in March 2014. In addition, we established a production company for *Yakult* (as a new plant) in Wuxi, Jiangsu Province, with production scheduled to start in the first half of 2015. Furthermore, we expanded sales areas successively, for example, by establishing three new branches in the inland areas of mainland China to reinforce sales. As of March 2014, the average daily sales of *Yakult* were about 4.23 million bottles in China.

In Indonesia, responding to the rise in sales volume, we began producing *Yakult* at the Mojokerto Plant (on the outskirts of Surabaya) in East Java in January 2014.

Net sales in Asia and Oceania increased to ¥61.0 billion, up 47.8%, from the prior fiscal year, and segment profit jumped 74.6%, to ¥16.8 billion.

In Europe, Yakult manufactures the fermented milk drink *Yakult* and other products in the Netherlands, and sells them in the Netherlands, Belgium, the United Kingdom, Germany, Austria, Italy and other countries.

In the European region, we started selling *Yakult* in Malta in April 2013, and in Switzerland in October 2013, both through the retail store channel. We also began sales of high-value-added *Yakult Plus*, which was produced by adding dietary fiber to *Yakult*, in Germany and Austria in September 2013 and in the Netherlands in March 2014.

Net sales in Europe increased to ¥8.6 billion, up 15.5% from the prior fiscal year, and the segment loss was ¥0.3 billion (versus a segment profit of ¥0.3 billion in the previous fiscal year).

PHARMACEUTICALS: In Japan, we actively held lectures and medical office briefings targeting medical professionals. Through this, we aimed to promote further dissemination of the standard treatment for advanced or recurrent colorectal cancer that uses the cancer chemotherapeutic agent *Elplat*, and educate attendees about FOLFOX and XELOX regimens for postsurgical adjuvant chemotherapy (a chemotherapy to prevent postsurgical recurrence of cancer). We also promoted activities recommending the proper use of a FOLFIRINOX regimen, which uses the cancer chemotherapeutic agents *Campto* and *Elplat* and the activated folinic acid drug *Levofolinate Yakult*, as the expanded application of FOLFIRINOX regimen for pancreatic cancer was approved in December 2013. In addition, we worked to expand the market share and sales channels for antineoplastic antimetabolite *Gemcitabine* Yakult, recombinant DNA G-CSF chemotherapy preparation *Neu-up*, and *Imatinib* Yakult, a generic antineoplastic drug that was included in Japan's drug price standard list in December 2013, and to increase sales of these drugs by focusing on marketing activities specialized in cancer-related fields.

However, sales in Japan declined from the previous fiscal year, affected mainly by a decrease in the dosing courses of the mainstay *Elplat*.

In R&D, we are preparing for the acquisition of approval for *Elplat*'s additional efficacy for gastric cancer. We also stepped up the development pipeline of hypoxia activated prodrug *PR610* in cooperation with Proacta Inc., PI3K/Akt inhibitor *Perifosine* by Æterna Zentaris Inc., oral HDAC inhibitor *Resminostat* by 4SC AG, humanized monoclonal anticancer antibodies program *LIV-2008* in cooperation with LivTech Inc., and antibody biosimilars in cooperation with UMN Pharma Inc. and API Co., Ltd. Furthermore, we obtained approval for production and sales of *Zoledronic* acid intravenous drip, a generic drug for bone lesions caused by bone metastasis, in February 2014, and are preparing for its sales. Through these efforts, we aim to solidify our position in the cancer-related field.

Outside Japan, with the progress of the shift to generic drugs, exports of the active pharmaceutical ingredient *Campto* became stagnant due to tough price competition.

As a result, net sales in the Pharmaceuticals segment dropped 4.7%, to ¥35.3 billion, while segment profit was ¥8.6 billion, down 4.8% from the prior fiscal year.

OTHERS: This segment encompasses Yakult's cosmetics operations as well as its professional baseball team operations.

In our cosmetics operations, we continued to promote the value and appeal of basic skin care products, namely, our core brands *Parabio*, *Revecy* and *Revecy White* based on home visits to counsel customers on cosmetics.

Specifically, we introduced a set of products which people can easily try for a week, not only from the conventional *Parabio* series but also from the *Revecy* series and the *Revecy*

White series, and worked to attract new customers by implementing sales measures for which key products and themes were set every quarter.

In November 2013, we released the essence *BECYCLE Lift Repair Essence*, which adds firmness and resilience to the skin, and worked to increase sales.

As a result, earnings of cosmetics operations overall expanded compared to the previous fiscal year.

In the professional baseball team operations, we actively promoted measures to attract spectators to Meiji Jingu Stadium, the home ground of the Tokyo Yakult Swallows, including a range of events and fan services. This led to an increase in the number of spectators at the stadium.

As a result, the Others segment saw a net sales increase 3.5%, to ¥18.0 billion, and segment profit jumped 87.7%, to ¥1.3 billion.

FINANCIAL POSITION

Total assets at year-end amounted to ¥519.6 billion, climbing 18.6% year on year.

Current assets increased by ¥26.1 billion, or 14.1%, from the prior fiscal year-end, to ¥211.3 billion, principally due to a rise of ¥12.9 billion in cash and cash equivalents and an increase in receivables of ¥5.2 billion.

Net property, plant and equipment advanced ¥33.6 billion, to ¥184.2 billion. This was primarily due to an increase in buildings and structures as result of the construction of new buildings of the Yakult Central Institute for Microbiological Research and an increase in construction in progress related to the new production facilities in China and the United States.

Investments and other assets rose ¥21.7 billion, or 21.1%, to ¥124.1 billion, mainly due to increases in investment securities.

In the fiscal year under review, capital investments increased by 49.4%, to ¥50.2 billion.

Total liabilities grew 40.0%, to ¥211.5 billion. The major component of this increase was a rise in long-term debt of ¥68.1 billion. As a result, interest-bearing debt climbed ¥44.6 billion from the prior fiscal year-end, to ¥110.2 billion, while the debt-to-equity ratio increased by 15.0 percentage points, to 40.1%.

Equity increased by 5.0%, to ¥274.8 billion, from ¥261.8 billion a year earlier. This rise was primarily due to increases in foreign currency translation adjustments and retained earnings.

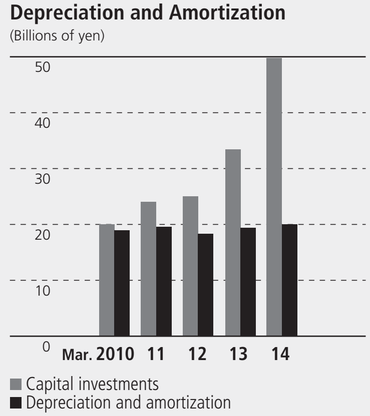
As a result, the equity ratio declined by 6.9 percentage points, to 52.9%. ROE rose 1.7 percentage points, to 8.4%. Return on assets (ROA) increased by 1.2 percentage points, to 6.7%.

CASH FLOWS

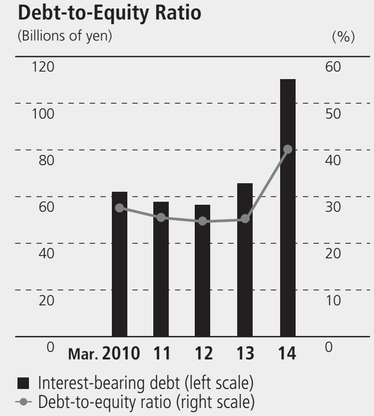
Net cash provided by operating activities was up ¥5.7 billion from the previous year, to ¥48.6 billion. This primarily reflected ¥39.5 billion in income before income taxes and minority interests and ¥20.1 billion in depreciation and amortization.

Total Assets and Equity (Excluding Minority Interests)

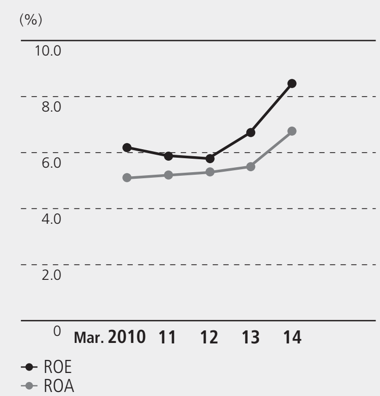
Capital Investments and Depreciation and Amortization



Interest-Bearing Debt and Debt-to-Equity Ratio



ROE and ROA



Note: ROA is calculated based on operating income.

Net cash used in investing activities increased by ¥6.4 billion, to ¥49.9 billion. Cash was mainly used for purchases of property, plant and equipment, specifically for the establishment and expansion of production facilities.

Net cash provided by financing activities was ¥3.5 billion, an increase of ¥3.1 billion from the previous fiscal year. This outlay was mainly attributable to a net increase in short-term loans and a proceeds from long-term debt, despite the acquisition of treasury stock and the payment of dividends.

In addition, foreign currency translation adjustments amounted to ¥10.7 billion due to foreign exchange fluctuations.

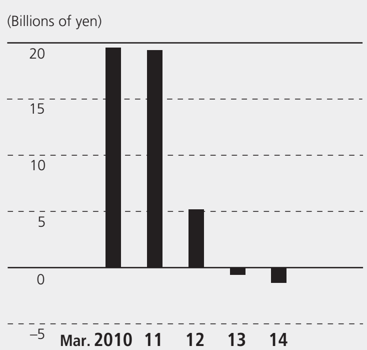
As a result, cash and cash equivalents at year-end amounted to ¥95.6 billion, a net increase of ¥12.9 billion from the previous fiscal year-end.

DIVIDENDS

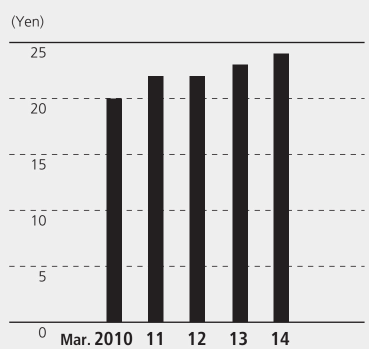
We give top priority to the payment of a stable and continuous dividend to shareholders by setting the annual dividend at a base of ¥20.0 per share. The total dividend is decided based on business performance for the year, after comprehensively taking into account the need for funds for future business expansion and increasing earnings, as well as the Company's financial position.

Based on the policy described above, we decided to pay a total dividend of ¥24.0 per share, up ¥1.0 from the prior fiscal year to continuously increase the return to shareholders. We have already declared and paid an interim dividend of ¥12.0 per share, and the balance of ¥12.0 per share will be distributed to our shareholders as the year-end dividend.

Free Cash Flow



Dividends



For the fiscal year ending March 31, 2015, we plan to continue to increase the annual dividend by ¥1.0 to ¥25.0 in an effort to offer higher returns to shareholders.

Internal reserves will be used mainly for investment of R&D and international business and facility renewal projects designed to strengthen our corporate structure and enhance our competitiveness.

FORWARD LOOKING STATEMENT

FOOD AND BEVERAGES

In our domestic Probiotics business, we will continue to develop more robust activities in both home delivery and retail store channels that underscore mainly the value of the *Lactobacillus casei* strain Shirota.

We will strive to generate higher sales for our home delivery channel by building sales strategies around *Yakult 400* and *Yakult 400LT* and for the retail store channel by further strengthening brands as the pioneer in fermented milk products, such as *New Yakult* and *New Yakult Calorie Half*.

In juices and other beverages, we will aim to increase sales of products, namely, our core brands *Toughman*, *Bansoreicha*, *Milouge* and *Kurozu Drink*, and also continue to expand the product lineup of high-value-added products with enhanced functionality.

Overseas, we will develop operations with "Yakult Vision 2020," our medium- to long-term plan, as a guiding framework.

For existing business bases that have already established a local presence, we will work to achieve further business growth, establish solid financial bases, and generate higher profits.

In countries where we are gaining a foothold, such as Vietnam, India, China and the United States, we will seek to strengthen our business base and drive business growth.

Decisions to advance operations in new countries and regions will be made following careful consideration of our internal and external business climate.

PHARMACEUTICALS

In Japan, we will continue to encourage the proper use of the cancer chemotherapeutic agent *Elplat* for the treatment of advanced or recurrent colorectal cancer and promote the value and appeal of adjuvant treatment through lectures and seminars for medical professionals to achieve further business growth. Parallel to this, we will step up efforts to defend the market share of cancer chemotherapeutic agent *Campto* and expand sales channels for

antineoplastic antimetabolite *Gemcitabine* Yakult, in a drive to establish ourselves as a specialist in the treatment of cancer.

Overseas, we will remain committed to further differentiating *Campto* from generic products to maintain and expand market share.

OTHERS

In our cosmetics operations, we will continue to expand sales of basic skin care products, namely, our core brands *Parabio*, *Revecy* and *Revecy White*, with a focus on home visits to counsel customers on cosmetics, placing emphasis on underscoring the value of our original moisturizing agents derived from our research expertise on lactic acid bacteria that has been developed since the Company's foundation.

Following the end of the fiscal year under review, other measures aimed at gaining new customers and to drive sales growth will continue to include the revitalization of sales by using marketing measures that encourage people to try our cosmetic set through one-week trial use and select a featured product and a special topic every quarter.

BUSINESS RISKS

This section includes an explanation of business risks associated with business conditions, accounting, and other factors stated in our securities report. This discussion will focus on factors that may have a material impact on investor decisions.

Forward-looking statements contained herein are based on the Group's judgment as of the date of filing of our securities report.

1. Risks Accompanying Global Business Operations

The Group conducts business operations worldwide, and is involved in production and sales activities overseas. As these overseas business sites gain stronger footing, the proportion of overseas business results grows each year.

This trend notwithstanding, consolidated business results as reported in the financial statements are affected by currency exchange rate fluctuations. Moreover, the regions where the Group operates overseas include countries marked by political and economic instability. While we work to mitigate these risks in various ways, there is no guarantee that such risks can be completely avoided. Moreover, given the underlying differences of social background between many overseas countries and regions and Japan, there is a risk that the unforeseen establishment, amendment, or abolition of certain laws and regulations could provoke problems with respect to Group business activities. The occurrence of such issues could adversely impact our business performance and financial condition.

2. Risks Related to Product Safety

Growing concern regarding food safety and quality assurance among consumers is placing strong pressure on companies to provide unquestionably reliable and safe food products. The Group recognizes that this trend demands greater levels of safety and quality assurance for the products it handles, which are subject to Japan's Food Sanitation Law, Pharmaceutical Affairs Law, and other regulations. As a Group, we also strive to strengthen our quality assurance system, with the provision of safe products as our highest priority.

These efforts notwithstanding, the unexpected occurrence of incidents related to the Group's food products could have an extremely adverse impact on our business results and financial condition.

For this reason, every available step is taken to improve the safety and quality of our food products.

3. Risks Pertaining to Raw Material Prices

The Group's main products consist of dairy products and lactobacillus-based drinks. Sharp increases in procurement prices for the raw materials required for these products, due largely to market supply and demand, could impact manufacturing costs, including costs for containers and other packaging. Moreover, price increases in the crude oil market, especially those sustained over extended periods, could adversely affect transportation costs related to our products. In the event that we are unable to cover the effects of higher raw material prices through cost reductions, or are prevented from enacting price revisions due to market conditions, these trends could have a tremendously adverse impact on the Group's financial condition.

In addition to the aforementioned, the Group faces a range of other risks, including the risks related to unseasonable weather conditions and natural disasters. As such, the aforementioned risks are not an exhaustive list of those that could negatively impact the Group business operations. The Group is aware of these risks, however, and strives to mitigate or avoid their occurrence.

Consolidated Balance Sheet

YAKULT HONSHA CO., LTD. and its subsidiaries
March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
ASSETS			
Current assets:			
Cash and cash equivalents (Note 11)	**¥ 95,624**	¥ 82,773	**$ 928,388**
Time deposits (Notes 5 and 11)	**14,457**	7,803	**140,362**
Receivables (Note 11):			
Notes and accounts receivable	**52,543**	49,386	**510,129**
Associated companies	**4,977**	4,170	**48,317**
Other	**3,274**	2,052	**31,782**
Inventories (Note 3)	**29,384**	27,435	**285,280**
Deferred tax assets (Note 8)	**5,800**	7,008	**56,312**
Other current assets	**5,545**	4,829	**53,837**
Allowance for doubtful accounts (Note 11)	**(328)**	(323)	**(3,184)**
Total current assets	**211,276**	185,133	**2,051,223**
Property, plant and equipment:			
Land (Note 5)	**37,833**	38,148	**367,306**
Buildings and structures (Note 5)	**129,687**	108,597	**1,259,091**
Machinery, equipment and vehicles	**118,943**	109,119	**1,154,787**
Furniture and fixtures	**22,314**	19,546	**216,641**
Lease assets (Note 9)	**18,328**	19,281	**177,945**
Construction in progress	**23,662**	11,955	**229,730**
Total	**350,767**	306,646	**3,405,500**
Accumulated depreciation (Note 5)	**(166,559)**	(156,034)	**(1,617,077)**
Net property, plant and equipment	**184,208**	150,612	**1,788,423**
Investments and other assets:			
Investment securities (Notes 4 and 11)	**61,063**	50,613	**592,841**
Investments in and advances to associated companies (Note 11)	**47,641**	36,899	**462,538**
Long-term loans	**446**	504	**4,330**
Goodwill	**32**	82	**318**
Deferred tax assets (Note 8)	**2,757**	2,066	**26,763**
Other assets (Note 6)	**12,148**	12,267	**117,939**
Total investments and other assets	**124,087**	102,431	**1,204,729**
Total (Note 17)	**¥ 519,571**	¥ 438,176	**$ 5,044,375**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term borrowings (Notes 5 and 11)	**¥ 30,526**	¥ 16,321	**$ 296,369**
Current portion of long-term debt (Notes 5, 9 and 11)	**5,437**	43,121	**52,786**
Payables (Note 11):			
Notes and accounts payable	**24,992**	24,371	**242,639**
Associated companies	**118**	92	**1,145**
Other	**13,327**	8,189	**129,388**
Income taxes payable	**3,289**	2,730	**31,936**
Accrued expenses	**19,538**	17,128	**189,686**
Allowance for loss on plants reorganization		602	
Deferred tax liabilities (Note 8)	**162**	148	**1,574**
Other current liabilities	**11,534**	8,516	**111,974**
Total current liabilities	**108,923**	121,218	**1,057,497**
Long-term liabilities:			
Long-term debt (Notes 5, 9 and 11)	**74,280**	6,174	**721,163**
Liability for retirement benefits (Note 6)	**18,979**	17,359	**184,267**
Asset retirement obligations	**887**	856	**8,614**
Deferred tax liabilities (Note 8)	**5,059**	1,781	**49,118**
Other long-term liabilities	**3,410**	3,689	**33,103**
Total long-term liabilities	**102,615**	29,859	**996,265**
Commitments and contingent liabilities (Note 9)			
Equity (Notes 7 and 15):			
Common stock— authorized, 700,000,000 shares; issued, 175,910,218 shares in 2014 and 2013	**31,118**	31,118	**302,113**
Capital surplus	**41,584**	41,507	**403,731**
Retained earnings	**241,617**	223,040	**2,345,798**
Treasury stock—at cost 10,586,487 shares in 2014 and 3,404,340 shares in 2013	**(40,550)**	(7,659)	**(393,689)**
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	**11,141**	6,472	**108,167**
Foreign currency translation adjustments	**(8,167)**	(32,635)	**(79,292)**
Defined retirement benefit plans	**(1,914)**		**(18,579)**
Total	**274,829**	261,843	**2,668,249**
Minority interests	**33,204**	25,256	**322,364**
Total equity	**308,033**	287,099	**2,990,613**
Total	**¥519,571**	¥438,176	**$5,044,375**

Consolidated Statement of Income

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Net sales (Note 17)	**¥350,322**	¥319,193	**$3,401,187**
Cost of sales (Notes 6, 9 and 14)	**156,331**	147,544	**1,517,781**
Gross profit	**193,991**	171,649	**1,883,406**
Selling, general and administrative expenses (Notes 6, 9, 13 and 14)	**161,965**	148,581	**1,572,474**
Operating income (Note 17)	**32,026**	23,068	**310,932**
Other income (expenses):			
Interest and dividend income	**3,444**	3,107	**33,441**
Interest expense	**(756)**	(720)	**(7,347)**
Foreign exchange gain	**1,042**	654	**10,116**
Equity in earnings of associated companies	**2,839**	2,130	**27,564**
Valuation loss on investment securities (Note 4)	**(2)**	(1,087)	**(20)**
Loss on impairment	**(446)**	(450)	**(4,327)**
Other—net (Note 4)	**1,311**	1,235	**12,728**
Other income—net	**7,432**	4,869	**72,155**
Income before income taxes and minority interests	**39,458**	27,937	**383,087**
Income taxes (Note 8):			
Current	**9,634**	8,019	**93,530**
Deferred	**2,754**	490	**26,742**
Total income taxes	**12,388**	8,509	**120,272**
Net income before minority interests	**27,070**	19,428	**262,815**
Minority interests in net income	**4,526**	3,049	**43,942**
Net income	**¥ 22,544**	¥ 16,379	**$ 218,873**

Per share of common stock (Note 16):	Yen		U.S. dollars (Note 1)
Basic net income	**¥ 134.44**	¥ 95.03	**$ 1.31**
Cash dividends applicable to the year	**24.00**	23.00	**0.23**

Diluted net income per share of common stock for 2014 and 2013 was not calculated due to the absence of dilutive securities.
See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Net income before minority interests	**¥27,070**	¥19,428	**$262,815**
Other comprehensive income (Note 12):			
Unrealized gain on available-for-sale securities	**4,638**	5,886	**45,025**
Foreign currency translation adjustments	**28,638**	16,147	**278,041**
Share of other comprehensive income in associates	**(71)**	(41)	**(686)**
Total other comprehensive income	**33,205**	21,992	**322,380**
Comprehensive income	**¥60,275**	¥41,420	**$585,195**
Total comprehensive income attributed to:			
Owners of the parent	**¥51,681**	¥35,837	**$501,758**
Minority interests	**8,594**	5,583	**83,437**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2014

	Thousands	Millions of yen									
						Accumulated other comprehensive (loss) income					
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Minority interests	Total equity
Balance, April 1, 2012	172,079	¥31,118	¥41,291	¥210,536	¥ (8,697)	¥ 511	¥(46,132)		¥228,627	¥23,616	¥252,243
Net income				16,379					16,379		16,379
Surplus from disposal of treasury stock			216						216		216
Cash dividends, ¥23.0 per share				(3,875)					(3,875)		(3,875)
Repurchase of treasury stock	(27)				(80)				(80)		(80)
Other decrease in treasury stock	454				1,118				1,118		1,118
Net change in the year						5,961	13,497		19,458	1,640	21,098
Balance, March 31, 2013	172,506	31,118	41,507	223,040	(7,659)	6,472	(32,635)		261,843	25,256	287,099
Net income				**22,544**					**22,544**		**22,544**
Surplus from disposal of treasury stock			**77**						**77**		**77**
Cash dividends, ¥24.0 per share				**(3,967)**					**(3,967)**		**(3,967)**
Repurchase of treasury stock	**(7,253)**				**(33,162)**				**(33,162)**		**(33,162)**
Other decrease in treasury stock	**71**				**271**				**271**		**271**
Net change in the year						**4,669**	**24,468**	**(1,914)**	**27,223**	**7,948**	**35,171**
Balance, March 31, 2014	**165,324**	**¥31,118**	**¥41,584**	**¥241,617**	**¥(40,550)**	**¥11,141**	**¥ (8,167)**	**¥(1,914)**	**¥274,829**	**¥33,204**	**¥308,033**

	Thousands of U.S. dollars (Note 1)									
					Accumulated other comprehensive (loss) income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Minority interests	Total equity
Balance, March 31, 2013	$302,113	$402,981	$2,165,438	$ (74,357)	$ 62,830	$(316,840)		$2,542,165	$245,200	$2,787,365
Net income			**218,873**					**218,873**		**218,873**
Surplus from disposal of treasury stock		**750**						**750**		**750**
Cash dividends, $0.23 per share			**(38,513)**					**(38,513)**		**(38,513)**
Repurchase of treasury stock				**(321,965)**				**(321,965)**		**(321,965)**
Other decrease in treasury stock				**2,633**				**2,633**		**2,633**
Net change in the year					**45,337**	**237,548**	**(18,579)**	**264,306**	**77,164**	**341,470**
Balance, March 31, 2014	**$302,113**	**$403,731**	**$2,345,798**	**$(393,689)**	**$108,167**	**$ (79,292)**	**$(18,579)**	**$2,668,249**	**$322,364**	**$2,990,613**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Operating activities:			
Income before income taxes and minority interests	**¥ 39,458**	¥ 27,937	**$ 383,087**
Adjustments for:			
Income taxes—paid	**(9,620)**	(6,527)	**(93,396)**
Depreciation and amortization	**20,078**	19,435	**194,929**
(Gain) Loss on disposals and sales of property, plant and equipment	**(353)**	67	**(3,422)**
Equity in earnings of associated companies	**(2,839)**	(2,130)	**(27,564)**
Loss on valuation of investment securities	**2**	1,087	**19**
Changes in operating assets and liabilities:			
(Increase) Decrease in receivables	**(1,273)**	607	**(12,362)**
(Increase) Decrease in inventories	**(890)**	4,479	**(8,644)**
Decrease in payables	**(651)**	(823)	**(6,316)**
Decrease in liability for retirement benefits	**(1,426)**	(852)	**(13,848)**
Other—net	**6,094**	(393)	**59,164**
Total adjustments	**9,122**	14,950	**88,560**
Net cash provided by operating activities	**48,580**	42,887	**471,647**
Investing activities:			
Transfers to time deposits	**(24,928)**	(18,393)	**(242,022)**
Proceeds from withdrawing time deposits	**19,689**	14,749	**191,152**
Purchases of property, plant and equipment	**(43,199)**	(34,333)	**(419,407)**
Proceeds from sales of property, plant and equipment	**2,386**	3,060	**23,168**
Purchases of investment securities	**(3,773)**	(8,677)	**(36,630)**
Acquisition of controlling interest in companies	**(80)**	(23)	**(772)**
Payments of loans receivable	**(13)**	(56)	**(128)**
Collection of loans receivable	**112**	200	**1,086**
Other—net (Note 4)	**(140)**	(78)	**(1,356)**
Net cash used in investing activities	**(49,946)**	(43,551)	**(484,909)**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Financing activities:			
Net increase in short-term loans	**14,321**	11,465	**139,035**
Proceeds from long-term debt	**71,500**		**694,175**
Payments for settlement of long-term debt	**(43,639)**	(4,384)	**(423,677)**
Repurchase of treasury stock	**(33,002)**	(7)	**(320,408)**
Sales of treasury stock	**356**	1,413	**3,456**
Dividends paid	**(3,960)**	(3,874)	**(38,446)**
Dividends paid to minority shareholders	**(2,070)**	(4,229)	**(20,100)**
Net cash provided by financing activities	**3,506**	384	**34,035**
Foreign currency translation adjustments on cash and cash equivalents	**10,711**	7,494	**103,989**
Net increase in cash and cash equivalents	**12,851**	7,214	**124,762**
Cash and cash equivalents, beginning of year	**82,773**	75,559	**803,626**
Cash and cash equivalents, end of year	**¥ 95,624**	¥ 82,773	**$ 928,388**

See notes to consolidated financial statements.

NOTE 1 BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2013 consolidated financial statements to conform to the classifications used in 2014.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which YAKULT HONSHA CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥103 to U.S.$1, the approximate rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) CONSOLIDATION

The consolidated financial statements as of March 31, 2014, include the accounts of the Company and its 78 (79 in 2013) subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 4 associated companies (4 in 2013) are accounted for by the equity method.

Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

(B) UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN SUBSIDIARIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; and 5) exclusion of minority interests from net income, if contained in net income.

(C) UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN ASSOCIATED COMPANIES FOR THE EQUITY METHOD

In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The accounting standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; and 5) exclusion of minority interests from net income, if contained in net income.

(D) BUSINESS COMBINATIONS

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR & D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

(E) CASH EQUIVALENTS

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

(F) INVENTORIES

Inventories are stated at the lower of cost, mainly determined by the moving average method, or net selling value.

(G) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is mainly computed by the declining-balance method based on the estimated useful lives of assets. On the other hand, the straight-line method is principally applied to the property, plant and equipment of foreign subsidiaries.

Estimated useful lives are as follows:

• The Company and its domestic subsidiaries

Buildings and structures	7 to 50 years
Machinery, equipment and vehicles	4 to 17 years

• Foreign subsidiaries

Buildings and structures	3 to 40 years
Machinery, equipment and vehicles	3 to 21 years

The useful lives for leased assets are the terms of the respective leases.

(H) LONG-LIVED ASSETS

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(I) INVESTMENT SECURITIES

The Group classifies all securities as available-for-sale securities, and reports marketable securities at fair value, with unrealized gains and losses (net of applicable taxes) as a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(J) RETIREMENT AND PENSION PLANS

The Company and certain subsidiaries have noncontributory and contributory funded pension plans covering substantially all of their employees. Certain subsidiaries have unfunded retirement benefit plans.

The Company accounted for the liability for retirement benefits based on the projected

benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(1) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(2) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note 2(s)).

(3) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guideline for (1) and (2) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (3) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (1) and (2) above, effective March 31, 2014. As a result, liability for retirement benefits of ¥18,651 million ($181,082 thousand) was recorded as of March 31, 2014, and accumulated other comprehensive income for the year ended March 31, 2014, decreased by ¥1,914 million ($18,579 thousand).

Also, total equity per share decreased by ¥11.58 ($0.11).

Retirement benefits to Directors and Audit & Supervisory Board Members of certain subsidiaries are provided at the amount which would be required if all Directors and Audit & Supervisory Board Members retired at each balance sheet date.

(K) ASSET RETIREMENT OBLIGATIONS

In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(L) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to income as incurred.

(M) LEASES

All finance lease transactions are capitalized to recognize lease assets and lease obligations in the consolidated balance sheet. All other leases are accounted for as operating leases.

(N) INCOME TAXES

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

(O) FOREIGN CURRENCY TRANSACTIONS

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

(P) FOREIGN CURRENCY FINANCIAL STATEMENTS

The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of foreign subsidiaries and associated companies are translated into Japanese yen at the average exchange rate.

(Q) PER SHARE INFORMATION

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share for the years ended March 31, 2014 and 2013, is not disclosed due to the absence of dilutive securities.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

(R) ACCOUNTING CHANGES AND ERROR CORRECTIONS

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies:

When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively, unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation

When the presentation of consolidated financial statements is changed, prior period consolidated financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors

When an error in prior period consolidated financial statements is discovered, those statements are restated.

(S) NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standard for Retirement Benefits

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

Major changes are as follows:

(1) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses, and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(2) Treatment in the consolidated financial statement of income and the consolidated financial statement of comprehensive income

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(3) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (1) and (2) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (3) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard for (1) and (2) above effective March 31, 2013, and expects to apply (3) above from April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard for (3) above in future applicable periods.

Accounting Standards for Business Combinations and Consolidated Financial Statements

On September 13, 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements."

Major accounting changes are as follows:

(1) Transactions with noncontrolling interest

A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, any different between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

(2) Presentation of the consolidated balance sheet

In the consolidated balance sheet, "minority interest" under the current accounting standard will be changed to "noncontrolling interest" under the revised accounting standard.

(3) Presentation of the consolidated statement of income

In the consolidated statement of income, "income before minority interest" under the current accounting standard will be changed to "net income" under the revised accounting standard, and "net income" under the current accounting standard will be changed to "net income attributable to owners of the parent" under the revised accounting standard.

(4) Provisional accounting treatments for a business combination

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisioned amounts for the items for which the accounting is

incomplete. Under the current accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss are recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(5) Acquisition-related costs

Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for "transactions with noncontrolling interest", "acquisition-related costs" and "presentation changes in the consolidated financial statements" are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for the presentation changes in the consolidated financial statements. In case of earlier application, all accounting standards and guidance above, except for the presentation changes, should be applied simultaneously. Either retrospective or prospective application of the revised accounting standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs" is permitted. In retrospective application of the revised standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs", accumulated effects of retrospective adjustments for all "transactions with noncontrolling interest" and "acquisition-related costs" which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application.

In prospective application, the new standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs" shall be applied prospectively from the beginning of the year of the first-time application. The changes in presentation shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for "provisional accounting treatments for a business combination" are effective for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which will occur on or after the beginning of the annual period beginning on April 1, 2014.

The Company expects to apply the revised accounting standards and guidance from the beginning of the annual period beginning on April 1, 2015, and is in the process of measuring the effects of applying the revised accounting standards and guidance in future applicable periods.

NOTE 3 INVENTORIES

Inventories at March 31, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Merchandise and finished products	**¥ 7,999**	¥ 7,523	**$ 77,657**
Work in process	**2,587**	2,235	**25,117**
Raw materials and supplies	**18,798**	17,677	**182,506**
Total	**¥29,384**	¥27,435	**$285,280**

NOTE 4 INVESTMENT SECURITIES

Investment securities at March 31, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Investment securities:			
Marketable equity securities	**¥58,907**	¥48,806	**$571,912**
Trust fund investments and other	**2,156**	1,807	**20,929**
Total	**¥61,063**	¥50,613	**$592,841**

The costs and aggregate fair values of investment securities at March 31, 2014 and 2013, were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2014				
Securities classified as—				
Available-for-sale:				
Equity securities	**¥42,560**	**¥16,966**	**¥ 619**	**¥58,907**
March 31, 2013				
Securities classified as—				
Available-for-sale:				
Equity securities	¥40,412	¥11,059	¥2,665	¥48,806
Others	1			1

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2014				
Securities classified as—				
Available-for-sale:				
Equity securities	**$413,203**	**$164,719**	**$6,010**	**$571,912**

Available-for-sale securities whose fair value cannot be reliably determined at March 31, 2014 and 2013, were ¥2,156 million ($20,929 thousand) and ¥1,806 million, respectively.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2014 and 2013, were ¥1 million ($6 thousand) and ¥366 million, respectively. Gross realized gain on these sales for the years ended March 31, 2014 and 2013, computed on the moving average cost basis, were ¥1 million ($6 thousand) and ¥129 million, respectively. Gross realized losses on these sales were not recognized for the year ended March 31, 2014 and were ¥4 million for 2013.

The valuation loss on available-for-sale equity securities for the years ended March 31, 2014 and 2013, were ¥2 million ($20 thousand) and ¥1,087 million, respectively.

NOTE 5 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings mainly consisting of bank loans, which include notes to banks and bank overdrafts, at March 31, 2014 and 2013, were ¥30,526 million ($296,369 thousand) and ¥16,321 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2014 and 2013, ranged from 0.45% to 2.98% and 0.01% to 8.65%, respectively.

Long-term debt at March 31, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Loans from banks and other financial institutions, 0.56% to 4.90% (0.65% to 2.45% in 2013), due serially to 2023:			
Collateralized	**¥ 422**	¥ 578	**$ 4,103**
Unsecured	**72,700**	41,658	**705,814**
Obligations under finance leases (Note 9)	**6,595**	7,059	**64,032**
Total	**79,717**	49,295	**773,949**
Less current portion	**(5,437)**	(43,121)	**(52,786)**
Long-term debt, less current portion	**¥74,280**	¥ 6,174	**$721,163**

Annual maturities of long-term debt as of March 31, 2014, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2015	¥ 5,437	$ 52,786
2016	7,301	70,884
2017	6,619	64,260
2018	5,818	56,483
2019	45,449	441,251
2020 and thereafter	9,093	88,285
Total	¥79,717	$773,949

The carrying amounts of assets pledged as collateral for long-term debt at March 31, 2014, were as follows:

March 31, 2014	Millions of yen	Thousands of U.S. dollars
Time deposits	**¥20**	**$194**
Land	**¥3,524**	**$34,218**
Buildings and structures—net of accumulated depreciation	**1,200**	**11,655**
Total	**¥4,744**	**$46,067**

As is customary in Japan, the Company maintains substantial deposit balances with the banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal. General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

NOTE 6 RETIREMENT AND PENSION PLANS

The Company and certain subsidiaries have severance payment plans for employees. Certain subsidiaries have severance payment plans for Directors and Audit & Supervisory Board Members.

The plans provide benefits based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits at March 31, 2014 and 2013, included the amounts of ¥328 million ($3,185 thousand) and ¥348 million, respectively, for Directors and Audit & Supervisory Board Members. The retirement benefits for Directors and Audit & Supervisory Board Members are paid subject to the approval of the shareholders.

The Company and certain subsidiaries have various noncontributory and contributory plans and other retirement benefit plans.

Year Ended March 31, 2014

1. The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Balance at beginning of year	**¥64,821**	**$629,334**
Current service cost	**2,795**	**27,137**
Interest cost	**885**	**8,592**
Actuarial losses	**164**	**1,591**
Benefits paid	**(4,091)**	**(39,714)**
Others	**382**	**3,705**
Balance at end of year	**¥64,956**	**$630,645**

2. The changes in plan assets for the year ended March 2014, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at beginning of year	¥41,490	$402,817
Expected return on plan assets	1,079	10,475
Actuarial gains	2,540	24,659
Contributions from the employer	4,654	45,190
Benefits paid	(3,767)	(36,572)
Others	396	3,843
Balance at end of year	¥46,392	$450,412

3. Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2014, was as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded defined benefit obligation	¥ 62,540	$ 607,192
Plan assets	(46,392)	(450,412)
	16,148	156,780
Unfunded defined benefit obligation	2,416	23,453
Net liability arising from defined benefit obligation	18,564	180,233

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Liability for retirement benefits	¥ 18,651	$ 181,082
Asset for the retirement benefits	(87)	(849)
Net liability arising from defined benefit obligation	¥ 18,564	$ 180,233

4. The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥ 2,795	$ 27,137
Interest cost	885	8,592
Expected return on plan assets	(1,078)	(10,475)
Recognized actuarial losses	1,012	9,830
Others	2	19
Net periodic benefit costs	¥ 3,616	$ 35,103

5. Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2014, was as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized actuarial loss	¥2,983	$28,965
Total	2,983	28,965

6. Plan assets as of March 31, 2014

(1) Components of plan assets

Plan assets consisted of the following:

	2014
Bonds	12%
Stocks	26%
Cash and Deposits	25%
General accounts	30%
Others	7%
Total	100%

(2) Method of determining the expected rate of return on plan assets

Expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

7. Assumptions used for the year ended March 31, 2014, were set forth as follows:

	2014
Discount rate	1.4%
Expected rate of return on plan assets	2.5%

Year Ended March 31, 2013

The liability (asset) for employees' retirement benefits on March 31, 2013, consisted of the following:

	Millions of yen
	2013
Projected benefit obligation	¥ 64,821
Fair value of plan assets	(41,489)
Unrecognized actuarial loss	(6,365)
Net liability	16,967
Prepaid pension cost	44
Liability for employees' retirement benefits	¥ 17,011

The components of net periodic retirement benefit costs for the years ended March 31, 2013, are as follows:

	Millions of yen
	2013
Service cost	¥2,363
Interest cost	1,053
Expected return on plan assets	(842)
Recognized actuarial loss	1,500
Net periodic retirement benefit costs	¥4,074

Assumptions used for the years ended March 31, 2013, are as follows:

	2013
Discount rate	1.4%
Expected rate of return on plan assets	2.5%
Recognition period of actuarial gain/loss	10 years

NOTE 7 EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(A) DIVIDENDS

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the Directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(B) INCREASES/DECREASES AND TRANSFER OF COMMON STOCK, RESERVE AND SURPLUS

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account that was charged upon the payment of such dividends, until the total aggregate amount of the legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(C) TREASURY STOCK AND TREASURY STOCK ACQUISITION RIGHTS

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

NOTE 8 INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal statutory tax rate of approximately 38.01% for the years ended March 31, 2014 and 2013. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Pension and severance costs	**¥ 6,593**	¥ 6,071	**$ 64,008**
Tax loss carryforwards	**4,501**	4,923	**43,699**
Accrued bonuses	**1,893**	1,999	**18,375**
Others	**10,736**	11,179	**104,236**
Less valuation allowance	**(5,849)**	(6,414)	**(56,785)**
Total	**¥17,874**	¥17,758	**$173,533**
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	**¥ 5,650**	¥ 3,421	**$ 54,859**
Undistributed earnings of foreign subsidiaries and associated companies	**4,893**	3,130	**47,500**
Unrealized gain on land held by subsidiaries	**1,493**	1,715	**14,500**
Others	**2,502**	2,347	**24,291**
Total	**¥14,538**	¥10,613	**$141,150**
Net deferred tax assets	**¥ 3,336**	¥ 7,145	**$ 32,383**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2014 and 2013, was as follows:

	2014	2013
Normal effective statutory tax rate	**38.01%**	38.01%
Equity in earnings of associated companies	**(2.74)**	(2.90)
Tax exemption	**(0.81)**	(1.52)
Undistributed earnings of foreign consolidated subsidiaries and associated companies	**4.47**	2.24
Social expenses not deductible for income tax purposes	**1.68**	2.31
Tax rate differences in foreign subsidiaries	**(10.64)**	(9.08)
Effect of tax rate reduction	**0.89**	
Others—net	**0.54**	1.40
Effective tax rate	**31.40%**	30.46%

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 38.01% to 35.64%. The effect of this change was to decrease deferred tax assets in the consolidated balance sheet as of March 31, 2014, by ¥350 million ($3,396 thousand) and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥350 million ($3,396 thousand).

On March 31, 2014, certain subsidiaries had tax loss carryforwards aggregating approximately ¥11,713 million ($113,719 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2015	¥ 589	$ 5,712
2016	1,035	10,048
2017	148	1,440
2018	864	8,389
2019	244	2,371
2020 and thereafter	8,833	85,759
Total	¥11,713	$113,719

NOTE 9 LEASES

The Group leases certain machinery, research equipment, vending machines, computer equipment and other assets.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2014		**2014**	
	Finance leases	Operating leases	Finance leases	Operating leases
Due within one year	**¥2,473**	**¥ 807**	**$24,014**	**$ 7,840**
Due after one year	**4,122**	**1,235**	**40,018**	**11,987**
Total	**¥6,595**	**¥2,042**	**$64,032**	**$19,827**

	Millions of yen	
	2013	
	Finance leases	Operating leases
Due within one year	¥2,688	¥ 719
Due after one year	4,371	1,140
Total	¥7,059	¥1,859

NOTE 10 RELATED PARTY DISCLOSURES

Transactions of the Company with related parties that are owned by Directors, Audit & Supervisory Board Members and their close relatives for the years ended March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Sales	**¥4,247**	¥4,296	**$41,230**
Sales discount and rebate	**34**	31	**326**
Collection of loans	**3**		**34**
Rent of vending machines	**25**	11	**246**
Temporary receipt	**893**	898	**8,667**
Subsidy of sales expenses	**30**	10	**291**
Sale of fixed assets		20	
Rent of leased assets	**22**	23	**218**

The balances due to or from these related parties at March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Notes and accounts receivable	**¥899**	¥955	**$8,724**
Other receivables	**5**	3	**50**
Long-term loans	**31**	35	**306**
Other payables	**11**	9	**110**
Accrued expenses	**6**	1	**59**
Other current liabilities	**1**		**7**

NOTE 11 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) GROUP POLICY FOR FINANCIAL INSTRUMENTS

The Group uses bank loans based on its capital investment plan mainly for the food and beverages business.

Temporal surplus funds are invested in short-term investments exposed to an insignificant risk of changes in value such as bank deposits. The Group does not invest in speculative instruments in compliance with the Group policy.

(2) NATURE, EXTENT OF RISK AND RISK MANAGEMENT SYSTEM FOR FINANCIAL INSTRUMENTS

Notes and accounts receivable are exposed to customer credit risk. To manage such credit risk, the Group monitors payment terms and credit information of major customers. Investment securities, mainly held for business-related purposes, are exposed to the risk of market price fluctuations. To manage such market risk, the fair value of the investments are obtained regularly and reported to the Company's Board of Directors.

Payment terms of notes and accounts payable are usually within one year.

Loans are made principally in connection with capital investments. Most of the loans are at variable interest rates and exposed to the risk of interest rate fluctuations. It is the Group policy not to hedge such market risk by derivatives such as interest-rate swaps as a result of considering the financial market situation and outstanding balance.

Payables and loans are exposed to liquidity risk. The Group manages the risk by reviewing cash flow projections prepared by the accounting and related departments.

(3) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value of financial instruments are based on the quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. The result of estimation might differ if other valuation techniques were taken.

	Millions of yen		
	Carrying amount	Fair Value	Unrealized gain/loss
March 31, 2014			
Cash and cash equivalents	**¥ 95,624**	**¥ 95,624**	
Time deposits	**14,457**	**14,457**	
Receivables	**60,794**		
Allowance for doubtful accounts	**(328)**		
Receivables—net	**60,466**	**60,466**	
Investment securities	**58,907**	**58,907**	
Total	**¥229,454**	**¥229,454**	
Short-term borrowings	**¥ 30,526**	**¥ 30,526**	
Payables	**38,437**	**38,437**	
Long-term debt (exclude obligations under finance leases)	**73,122**	**73,196**	**¥74**
Total	**¥142,085**	**¥142,159**	**¥74**

	Millions of yen		
	Carrying amount	Fair Value	Unrealized gain/loss
March 31, 2013			
Cash and cash equivalents	¥ 82,773	¥ 82,773	
Time deposits	7,803	7,803	
Receivables	55,608		
Allowance for doubtful accounts	(323)		
Receivables—net	55,285	55,285	
Investment securities	48,807	48,807	
Total	¥194,668	¥194,668	
Short-term borrowings	¥ 16,321	¥ 16,321	
Payables	32,652	32,652	
Long-term debt (exclude obligations under finance leases)	42,236	42,357	¥121
Total	¥ 91,209	¥ 91,330	¥121

	Thousands of U.S. dollars		
	Carrying amount	Fair Value	Unrealized gain/loss
March 31, 2014			
Cash and cash equivalents	**$ 928,388**	**$ 928,388**	
Time deposits	**140,362**	**140,362**	
Receivables	**590,228**		
Allowance for doubtful accounts	**(3,184)**		
Receivables—net	**587,044**	**587,044**	
Investment securities	**571,912**	**571,912**	
Total	**$2,227,706**	**$2,227,706**	
Short-term borrowings	**$296,369**	**$296,369**	
Payables	**373,172**	**373,172**	
Long-term debt (exclude obligations under finance leases)	**709,917**	**710,644**	**$727**
Total	**$1,379,458**	**$1,380,185**	**$727**

Cash and cash equivalents, Time deposits and Receivables

The carrying values of cash and cash equivalents, time deposits and receivables approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for investment securities by classification is included in Note 4.

Short-term borrowings and Payables (excluding current portion of long-term debt)

The carrying values of short-term borrowings and payables (excluding the current portion of long-term debt) approximate fair value because of their short maturities.

Long-term debt (including current portion of long-term debt)

The fair value of long-term borrowings is determined by discounting the cash flows related to the debt at the Group's assumed corporate discount rate.

(4) FINANCIAL INSTRUMENTS WHOSE FAIR VALUE CANNOT BE RELIABLY DETERMINED

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Investments in equity instruments that do not have a quoted market price in an active market and investments in associated companies	**¥49,797**	¥38,705	**$483,467**

(5) MATURITY ANALYSIS FOR FINANCIAL ASSETS

	Millions of yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2014				
Cash and cash equivalents	**¥ 95,624**			
Time deposits	**14,457**			
Receivables	**60,794**			
Total	**¥170,875**			

	Millions of yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2013				
Cash and cash equivalents	¥ 82,773			
Time deposits	7,803			
Receivables	55,608			
Total	¥146,184			

	Thousands of U.S. dollars			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2014				
Cash and cash equivalents	**$ 928,388**			
Time deposits	**140,362**			
Receivables	**590,228**			
Total	**$1,658,978**			

NOTE 12 COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Unrealized gain on available-for-sale securities:			
Gain arising during the year	**¥ 7,206**	¥ 8,156	**$ 69,958**
Reclassification adjustments to profit or loss		988	
Amount before income tax effect	**7,206**	9,144	**69,958**
Income tax effect	**2,568**	(3,258)	**24,933**
Total	**¥ 4,638**	¥ 5,886	**$ 45,025**

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Foreign currency translation adjustments:			
Gain arising during the year	**¥28,638**	¥16,039	**$278,041**
Income tax effect		108	
Total	**¥28,638**	¥16,147	**$278,041**

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Share of other comprehensive income in associates:			
Gain arising during the year	**¥ (71)**	¥ 103	**$ (686)**
Reclassification adjustments to profit or loss		(144)	
Total	**¥ (71)**	¥ (41)	**$ (686)**
Total other comprehensive income	**¥33,205**	¥21,992	**$322,380**

NOTE 13 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of selling, general and administrative expenses for the years ended March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Advertising	**¥12,341**	¥10,843	**$119,819**
Salaries	**33,036**	29,943	**320,733**
Provision for accrued retirement benefits	**2,769**	3,048	**26,883**
Depreciation and amortization	**5,205**	5,215	**50,534**
Research and development	**11,127**	10,720	**108,032**

NOTE 14 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥11,166 million ($108,406 thousand) and ¥10,761 million for the years ended March 31, 2014 and 2013, respectively.

NOTE 15 SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2014, was approved at the Company's Board of Directors' meeting held on May 13, 2014:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥12.00 ($0.12) per share	**¥1,984**	**$19,266**

NOTE 16 NET INCOME PER SHARE

Basic net income per share ("EPS") is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share for the years ended March 31, 2014 and 2013, is not disclosed due to the absence of dilutive securities.

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2014				
Basic EPS:				
Net income available to common shareholders	**¥22,544**	**167,687**	**¥134.44**	**$1.31**

	Millions of yen	Thousands of shares	Yen
	Net income	Weighted average shares	EPS
For the year ended March 31, 2013			
Basic EPS:			
Net income available to common shareholders	¥16,379	172,366	¥95.03

NOTE 17 SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) DESCRIPTION OF REPORTABLE SEGMENTS

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group consists of Food and Beverages (Japan), Food and Beverages (The Americas), Food and Beverages (Asia and Oceania), Food and Beverages (Europe), Pharmaceuticals and Others.

Food and Beverages (Japan) consists of fermented milk drinks, juice and noodles, etc.

Food and Beverages (The Americas) consists of fermented milk drinks, etc.

Food and Beverages (Asia and Oceania) consists of fermented milk drinks, etc.

Food and Beverages (Europe) consists of fermented milk drinks, etc.

Pharmaceuticals consists of anticancer drugs and other pharmaceuticals.

Others consist of cosmetics and professional baseball team operation.

(2) METHODS OF MEASUREMENT FOR THE AMOUNTS OF SALES, PROFIT (LOSS), ASSETS, AND OTHER ITEMS FOR EACH REPORTABLE SEGMENT

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) INFORMATION ABOUT SALES, PROFIT (LOSS), ASSETS AND OTHER ITEMS

	Millions of yen							
	2014							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
Sales								
Sales to external customers	**¥180,510**	**¥49,247**	**¥60,986**	**¥8,632**	**¥35,325**	**¥15,622**		**¥350,322**
Intersegment sales or transfers	**19,962**					**2,420**	**¥(22,382)**	
Total	**200,472**	**49,247**	**60,986**	**8,632**	**35,325**	**18,042**	**(22,382)**	**350,322**
Segment profit (loss)	**9,783**	**11,454**	**16,754**	**(339)**	**8,550**	**1,327**	**(15,503)**	**32,026**
Segment assets	**180,347**	**75,198**	**120,536**	**9,722**	**38,093**	**12,348**	**83,327**	**519,571**
Other:								
Depreciation and amortization	**12,200**	**1,801**	**3,080**	**420**	**836**	**357**	**1,384**	**20,078**
Amortization of goodwill	**102**							**102**
Investment in associates								
Increase in property, plant and equipment and intangible assets	**19,010**	**7,198**	**14,101**	**151**	**7,505**	**1,960**	**1,650**	**51,575**

Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥12,355 million of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of ¥89,170 million of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of ¥1,384 million of depreciation of head office.
4. Reconciliation in capital expenditure consists of ¥1,650 million of capital expenditure of head office.

	Millions of yen							
	2013							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
Sales								
Sales to external customers	¥179,601	¥38,823	¥41,251	¥7,473	¥37,072	¥14,973		¥319,193
Intersegment sales or transfers	12,248					2,463	¥(14,711)	
Total	191,849	38,823	41,251	7,473	37,072	17,436	(14,711)	319,193
Segment profit (loss)	9,547	8,667	9,596	281	8,982	707	(14,712)	23,068
Segment assets	174,138	56,247	82,648	7,937	30,323	9,563	77,320	438,176
Other:								
Depreciation and amortization	12,805	1,580	2,243	323	745	378	1,361	19,435
Amortization of goodwill	49	10						59
Investment in associates			35,435					35,435
Increase in property, plant and equipment and intangible assets	19,971	4,714	6,716	191	1,512	391	2,829	36,324

Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥12,409 million of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of ¥81,283 million of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of ¥1,361 million of depreciation of head office.
4. Reconciliation in capital expenditure consists of ¥2,829 million of capital expenditure of head office.

	Thousands of U.S. dollars							
	2014							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
Sales								
Sales to external customers	**$1,752,523**	**$478,126**	**$592,101**	**$83,807**	**$342,956**	**$151,674**		**$3,401,187**
Intersegment sales or transfers	**193,804**					**23,499**	**$(217,303)**	
Total	**1,946,327**	**478,126**	**592,101**	**83,807**	**342,956**	**175,173**	**(217,303)**	**3,401,187**
Segment profit (loss)	**94,981**	**111,209**	**162,658**	**(3,294)**	**83,014**	**12,880**	**(150,516)**	**310,932**
Segment assets	**1,750,940**	**730,075**	**1,170,257**	**94,387**	**369,838**	**119,880**	**808,998**	**5,044,375**
Other:								
Depreciation and amortization	**118,450**	**17,487**	**29,899**	**4,081**	**8,113**	**3,462**	**13,437**	**194,929**
Amortization of goodwill	**992**							**992**
Investment in associates								
Increase in property, plant and equipment and intangible assets	**184,564**	**69,887**	**136,899**	**1,464**	**72,866**	**19,028**	**16,017**	**500,725**

Notes: 1. Reconciliation in segment profit (loss) mainly consists of $119,950 thousand of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of $865,727 thousand of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of $13,437 thousand of depreciation of head office.
4. Reconciliation in capital expenditure consists of $16,017 thousand of capital expenditure of head office.

(4) Related information

1. Information about geographical areas

a. Sales

	Japan	The Americas	Asia and Oceania	Europe	Total
	Millions of yen				
	2014				
	¥229,484	**¥49,247**	**¥62,595**	**¥8,996**	**¥350,322**
	Millions of yen				
	2013				
	¥229,920	¥38,823	¥42,522	¥7,928	¥319,193
	Thousands of U.S. dollars				
	2014				
	$2,227,998	**$478,126**	**$607,725**	**$87,338**	**$3,401,187**

Note: Sales are classified by country or region based on the location of customers.

b. Property, plant and equipment

	Japan	The Americas	Asia and Oceania	Europe	Total
	Millions of yen				
	2014				
	¥122,373	**¥20,098**	**¥38,908**	**¥2,829**	**¥184,208**
	Millions of yen				
	2013				
	¥111,180	¥12,610	¥24,319	¥2,503	¥150,612
	Thousands of U.S. dollars				
	2014				
	$1,188,084	**$195,128**	**$377,748**	**$27,463**	**$1,788,423**

Independent Auditors' Report

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Yakult Honsha Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Yakult Honsha Co., Ltd. and its subsidiaries as of March 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yakult Honsha Co., Ltd. and its subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 25, 2014

Member of
Deloitte Touche Tohmatsu Limited

Global Network

(As of April 1, 2014)

PRINCIPAL INTERNATIONAL SUBSIDIARIES AND AFFILIATES

1. Yakult Honsha Co., Ltd.

★ Yakult Central Institute for Microbiological Research

2. Yakult Taiwan Co., Ltd.
3. Hong Kong Yakult Co., Ltd.
4. Yakult (Thailand) Co., Ltd.
5. Korea Yakult Co., Ltd.
6. Yakult Philippines, Inc.
7. Yakult (Singapore) Pte., Ltd.
8. P.T. Yakult Indonesia Persada
9. Yakult Australia Pty. Ltd.
   • New Zealand Branch
10. Yakult (Malaysia) Sdn. Bhd.
11. Yakult Vietnam Co., Ltd.
12. Yakult Danone India Pvt. Ltd.
13. Yakult (China) Co., Ltd.
14. Guangzhou Yakult Co., Ltd.
15. Shanghai Yakult Co., Ltd.
16. Beijing Yakult Co., Ltd.
17. Tianjin Yakult Co., Ltd.
18. Wuxi Yakult Co., Ltd.*
19. Yakult S/A Ind. E. Com. (Brazil)
20. Yakult S.A. de C.V. (Mexico)
21. Yakult U.S.A. Inc.
22. Yakult Europe B.V.
23. Yakult Nederland B.V.
24. Yakult Belgium S.A./N.V.
25. Yakult UK Ltd.
    • Ireland Branch
26. Yakult Deutschland GmbH
27. Yakult Oesterreich GmbH
28. Yakult Italia S.R.L.

★ Yakult Honsha European Research Center for Microbiology, ESV

Countries where test and other sales are conducted: Luxembourg, France, Spain, Brunei, Uruguay, Canada, Belize, Malta and Switzerland

*Wuxi Yakult Co., Ltd. is scheduled to begin production in 2015.

Corporate Data

(As of March 31, 2014)

CORPORATE NAME	YAKULT HONSHA CO., LTD.
DATE FOUNDED	1935
DATE INCORPORATED	April 9, 1955
HEAD OFFICE	1-19, Higashi Shimbashi 1-chome, Minato-ku, Tokyo 105-8660, Japan Phone: +81-3-3574-8960 URL: http://www.yakult.co.jp/
PAID-IN CAPITAL	¥31,117,654,815
ANNUAL ACCOUNT SETTLEMENT DATE	March 31
NUMBER OF EMPLOYEES	20,492 (Consolidated)
NUMBER OF ISSUED AND OUTSTANDING SHARES	175,910,218
NUMBER OF SHAREHOLDERS	19,630*

* Including shareholders who own shares of less than one unit

OFFICES

1 head office, 1 institute, 5 branches, 7 plants

- **Head Office**
- **Yakult Central Institute for Microbiological Research**

Branches

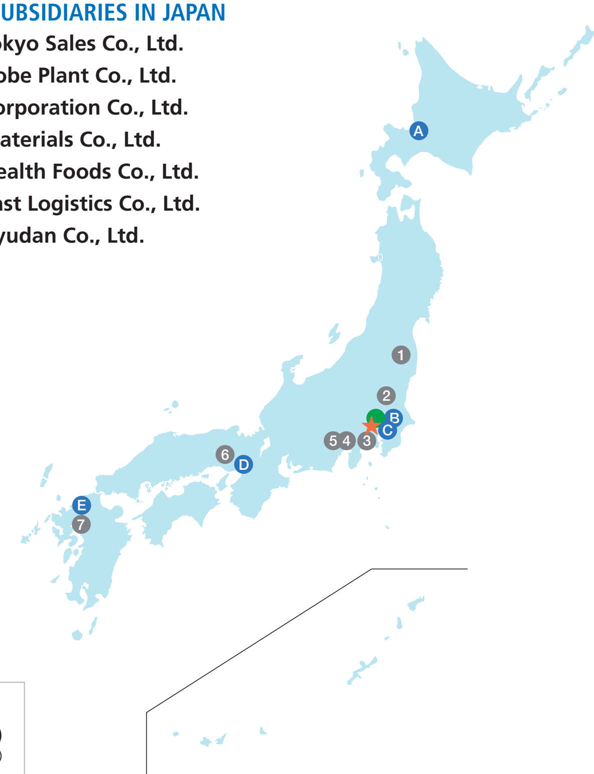
- A **Hokkaido Branch**
- B **East Japan Branch**
- C **Metropolitan Branch**
- D **Central Japan Branch**
- E **West Japan Branch**

Plants

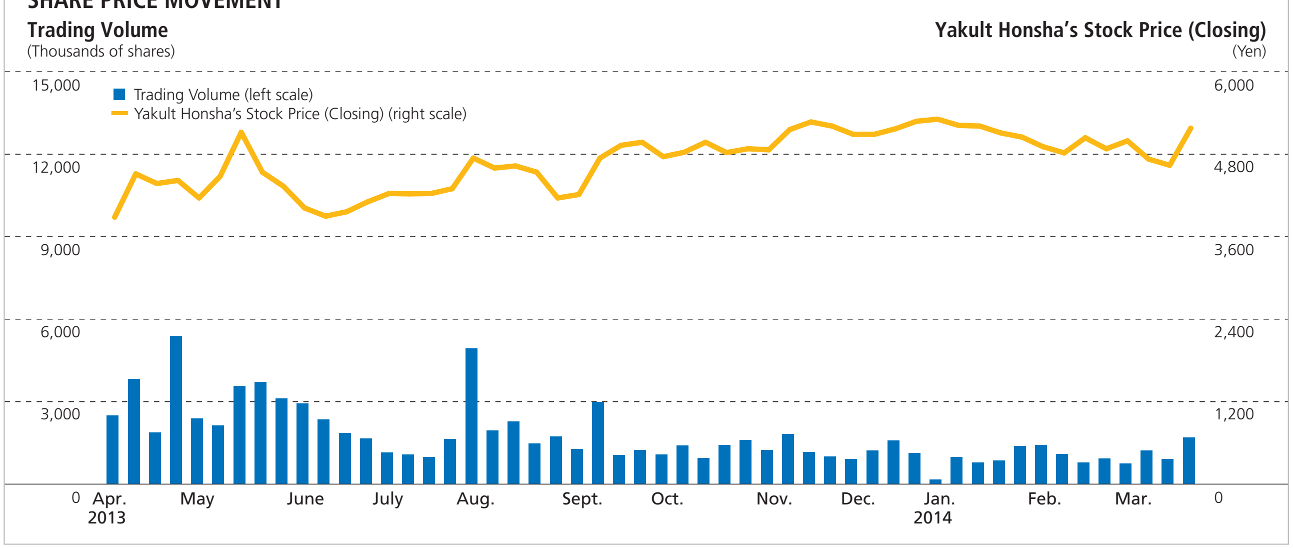
1. **Fukushima Plant**
2. **Ibaraki Plant**
3. **Shonan Cosmetics Plant**
4. **Fuji Susono Plant**
5. **Fuji Susono Pharmaceuticals Plant**
6. **Hyogo Miki Plant**
7. **Saga Plant**

MAJOR SUBSIDIARIES IN JAPAN

Yakult Tokyo Sales Co., Ltd.
Yakult Kobe Plant Co., Ltd.
Yakult Corporation Co., Ltd.
Yakult Materials Co., Ltd.
Yakult Health Foods Co., Ltd.
Yakult East Logistics Co., Ltd.
Yakult Kyudan Co., Ltd.



SHARE PRICE MOVEMENT



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